Restructuring Today

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Klein sees East Texas retail power opening next year

East Texas could open on an "interim basis" by the Fall of next year, PUC Chairman Rebecca Klein said Friday.

The PUC has set July 22 for a status report on a potential breakthrough in negotiations over market protocols and promised to take up the issue at its July 25 meeting (RT, 7/17). The main sticking point has been pricing in a volatile energy market, Klein told an RT conference on the outlook for Texas' C&I market.

The PUC will assess Entergy's filing of an East Texas tariff at FERC, Klein added, if the utility reaches tentative agreement on market protocols.

East Texas has a significant C&I base, reported Jim Ajello, CEO of Reliant Energy Solutions, and many have said they want to choose their supplier.

Residential and small business customers would have price-to-beat protection in East Texas but the large industrials might end up being "fully exposed to competition in a non-competitive area" and potentially at the mercy of an unregulated monopoly, warned Ray Cunningham, president of Texas Industrial Energy Consumers (TIEC) and energy buyer for Exxon/Mobil.

The market overseen by ERCOT, Cunningham said, is not perfect but successful and robust.

"It's certainly not been a simple market," he noted.

Cunningham sometimes yearns for the old days, "when you had an occasional fuel reconciliation case."

But the greater complexity has brought options for consumers, Cunningham acknowledged, and allowed them to respond directly to market signals and prices.

Stranded cost true-up worries Texas industrials

The PUC's stranded cost true-up in 2004, he warned, poses a problem that could cause the market "to fall on its face."

Cunningham's members (above) worry about the impact of the $3.9 billion in stranded costs claimed by CenterPoint (Reliant).

If the PUC grants the entire amount, Cunningham said, it will be collected from ratepayers over the following 12 years.

"That's a mind-boggling amount of money to collect from the market," Cunningham said, and might cut marketers' headroom to a point where marketers can't make money in Reliant's footprint.

CenterPoint spun off its 12 power plants to form its Texas Genco and offered Reliant Resources an option to buy its 80% share in the new firm.

"The market is valuing those assets at a fairly steep discount versus what's on the books at CenterPoint," Cunningham noted, and CenterPoint did not charge Reliant for the option to buy Texas Genco shares.

"The option does have value and CenterPoint does have a duty to mitigate stranded costs," Cunningham reminded.

It's too early to tell what impact stranded costs will have on prices, Klein replied.

The PUC walks a fine line between trying to balance the valid recovery of stranded costs as required by law with the need to protect consumers, Klein added.

Large industrials worry about the PUC's effort to change the ERCOT market by doing away with pricing zones and replacing the system with a Texas LMP. The PUC is to decide how to develop the so-called Texas nodal at its Aug 7 meeting, with implementation tentatively set for 2006.

An instant benefit of Texas nodal would be efficient allocation of local congestion costs, Klein predicted, instead of the costs being socialized.

"Some market segments are afraid of that because a reallocation means an end to the status quo," she said.

"We do have some congestion costs that are being socialized on the current system but they're not gigantic," Cunningham responded.

Local congestion costs are only 2% of the ERCOT market but total $250 million, Klein replied, an amount "significant enough to do something about."

You may have big winners and big losers depending on where they sit in relation to the congestion and a node, Cunningham explained.

Generators can better exercise market power, Cunningham added, "when you create thousands of nodes for settlement of power prices."

Nodal pricing creates opportunities for traders, Cunningham added, but it would be better to have "real generators serving real customers without a lot of speculative trading driving up costs."

"Some folks in the market shrink away from transparency," Klein observed.

PUC chair predicts Texas day-ahead market

ERCOT will likely have a day-ahead market, Klein added, since the debate appears to have moved beyond whether there will be one to when.

The question, Klein said, is whether a day-ahead market will be implemented before nodal pricing.

Reliant wants the day-ahead market in place well before 2006, Ajello said, because of "a lot of untapped resources that would help strengthen an already robust market."

ERCOT has a "vibrant and liquid wholesale market," Ajello said, and regulatory certainty for the C&I market based on a "relatively laissez-faire approach in comparison with residential and small business rules."

Reliant customers have saved $500 million compared to regulated rates, Ajello reported, "a huge sum of money even on a macro basis."

Reliant Energy Solutions has a 35% share of an 80-terawatt market.

C&I customers are now more discerning, Ajello noted, and they ask about product design, contract terms, supply strategy and the supplier's credit picture — signs of a maturing market.

Decisions about buying energy are being made at the top, Ajello said, because executives have realized it's key to their risk-management strategy.

"The biggest impact comes from entering the market at the right time, with the right product and the right retailer," Ajello maintained, rather than writing the perfect RFP.

"If you're the kind of load that can watch market prices, respond and change

3 stories in 0.8 minutes

Regulators urge Congress not to block FERC: Signers include Texas Chairman Rebecca Klein; Roy Hemmingway, Oregon chairman; Thomas Welch, Maine chairman; Laura Chappelle, Michigan chair; Commissioner Kevin Wright of Illinois; Carol Murphy, New Jersey commissioner; Pennsylvania Commissioner Glen Thomas along with Commissioner Jay Stovall, Montana. They wrote Senate Energy & Natural Resources Committee leaders of both parties not to block FERC efforts to develop RTOs and competitive wholesale markets. A delay of the commission's plans to reform markets will hurt the consumer, they wrote.

Generators see SoCal Ed plot: For PUC Chairman Michael Peevey, Southern California Edison's soon-to-be-announced takeover from AES building of a 1,050-mw plant near Redlands (RT, 7/18) will be a big gain for ratepayers. Jan Smutny-Jones, speaking for merchant generators, sees the sale as a "sweetheart deal." He's executive director of the state's Independent Power Producers Assn. Edison, he said, will be able to recover its costs from ratepayers and thus would have little incentive to operate efficiently. SoCalEd is avoiding signing long-term power contracts with merchant generators, he charged, to pressure independent generators to sell their plants at distress prices.

Lights go out on blackout probe: New Jersey Board of Public Utilities' (BPU) hearing on Jersey Central Power & Light's (FirstEnergy) July 4 outages was interrupted by a power failure (RT, 7/11) but it wasn't JCP&L's (FirstEnergy) system. BPU President Jeanne Fox told a crowd of about 100 some 90 minutes into the meeting that power to the American Legion Hall would be cut so crews could fix a downed power line. Seashore residents and merchants can file claims to cover the cost of the outages, state officials ruled Thursday. JCP&L hasn't admitted liability but has agreed to resolve claims in a "fair, reasonable and timely manner," Gov James McGreevey reported.

your behavior, that's when you can save money," Cunningham agreed, and the ERCOT market offers that product now.

The 90-minute conference call covered lots more than presented here. To order a CD or tape of the session call 1-800-486-8201 or email season@restructuringtoday.com.

LDCs call marketers' Ohio bad-debt requests selfish

Changes marketers want in the LDCs' proposal to track and collect bad debt would enrich the marketers, not consumers as the marketers claim (RT, 6/26), LDCs told the Ohio PUC.

East Ohio Gas (Dominion), Columbia Gas of Ohio, Vectren Energy of Ohio, Northeast Ohio Natural Gas and Oxford Natural Gas asked for an automatic adjustment mechanism (AAM) that would speed their compensation for bad debt and enable customers in arrears — now barred from choice programs — to choose their supplier (RT, 6/9).

Marketers Interstate Gas Supply, WPS Energy Services and Vectren's retail marketing affiliate Vectren Retail saw an opportunity in the AAM to eliminate the discount they forgo when the LDCs buy their receivables.

That doesn't compute, say the LDCs, because LDCs still have to absorb the carrying costs of non-payment until unpaid accounts actually get shutoff.

That 1% discount — marketers are paid only 99¢ on the dollar for customer bad debt — forces marketers to charge higher prices to make up the difference, the marketers said.

Marketers aren't concerned about a level playing field for their customers, the LDCs accused, and only want to enrich themselves.

The marketers' expectation that they could collect from the bad-debt fund and not have to turn loose poor-paying customers doesn't work either, LDCs argued. Disconnection still is the best way to collect past-due accounts and only LDCs can cut off customers who don't pay.

Industry warns Congress natural gas price tag costs jobs

It's good that gas storage inventories are catching up but it's costing US jobs, the Industrial Energy Consumers of America warned Congress.

High energy prices have hurt manufacturing demand as they exceed industry's ability to pay, Executive Director Paul Cicio wrote Congress and governors. The US will remain an "unattractive place to manufacture," Cicio warned, if Energy Information Administration predictions that gas prices this year will run $4.97-$5.34/mcf and $4.34-$4.99/mcf next year come true.

More than 2 million "quality" manufacturing jobs have been lost and may never return, Cicio reported.

Firms who chose to build their businesses in the US because of reliable and affordable gas supplies created many of those jobs but US prices now are higher than those in Europe, Brazil and China, Cicio added.

Congress in his view caused the imbalance by encouraging gas use while limiting exploration, an imbalance it should cure now by opening new fields to production.

BP settles wash-trade charge at FERC

BP Energy has reached settlement with FERC on charges that it manipulated Western markets during the energy crisis.

BP's electricity sales in the West will be subject to FERC review for the next six months, a FERC order released Friday explained, and the firm will have to give FERC monthly reports on its trading activities and copies of trading tapes.

BP will pay $3 million to the United Way to provide energy assistance to low-income households in California and Arizona. The commission had ordered BP and Reliant Resources in late March to show why their trading rights shouldn't be revoked in light of evidence the firms coordinated efforts to manipulate electricity prices.

A BP Energy trader, FERC staff said, had sold electricity to a Reliant trader over Bloomberg's electricity-trading platform, then bought it back as part of a so-called round-trip trade.

The trades didn't manipulate the market or result in financial benefit to BP or the BP trader involved, the firm argued, but were "inappropriate, disappointing and embarrassing for the company."

Telephone transcripts and recordings seemed to show that the BP trader was trying to manipulate the price of power at the Southwest's Palo Verde hub by altering BP's view of the value of his trading position, the staff report said.

Austin Grill buys wind power: The popular chain of six Texas-style restaurants signed with Washington Gas Energy Services supplied by Community Energy to promote the restaurant's environmental image. Source of the power is the Mountaineer Wind Energy Center in Thomas, WV.

List to supply North Carolina co-ops narrows: GE Aero Energy Products, Pratt & Whitney Power Systems, Progress Energy Carolinas and SCANA Energy Marketing made the short list to supply up to 1,000 mw of firm peaking capacity to North Carolina co-ops. The North Carolina Electric Membership Corp (NCEMC) narrowed the field from 68 proposals tendered by 33 energy suppliers. NCEMC will select the winner(s) by the end of the year. Deliveries are to begin in 2005.

Postal Service is looking for power: For 776 facilities! That's 200,000+ mw. Call Deborah Wilcox-Loos at 800-285-7343 or email dwilcox@email.usps.gov.

Jersey regulators chide utility for not being in PJM

The Bureau of Public Utilities (BPU) chopped $18.4 million off Rockland Electric's deferred balance saying the utility should have hedged better and joined PJM to keep down costs.

Rockland was the second of four utilities awaiting rulings this month on how they would be compensated for the nearly $1 billion in deferred balances they built up while rates were capped (RT, 7/11).

The BPU pruned Rockland Electric's nearly $100 million bill for deferred energy costs and ordered it to cut base rates.

The BPU ordered a 5.3% cut in Rockland's distribution rates instead of allowing the 5.4% boost the IOU asked for.

The BPU tackles deferred balances and distribution rates for Atlantic City Electric (Pepco) today and Jersey Central Power & Light (Exelon) on Thursday.

Maine auction winner revealed

One of Maine's mystery suppliers is Select Energy.

It was picked by regulators to serve 150 mw of standard offer service to large C&Is at Central Maine Power and Bangor Hydro Electric beginning Sept 1.

Select Energy won the auction that began service in March.

Maine switched to six-month auctions for medium to large C&I default customers this year.

The winning bids for the six-month supply auctions were announced last week, but not the winners, a concession from the PUC so winners could line up supplies privately (RT, 7/10).

The winning bidder for medium C&Is remains a mystery but FPL Energy Power Marketing has been serving those customers since March.

Asked if it had won again, FPL Energy declined comment and the Maine PUC is honoring its pledge to remain mum. Select Energy has carved itself a big market niche in the default supply business.

It began serving July 1 a 12-month contract for 400 mw of default service to NSTAR's Boston Edison, Commonwealth Electric Light and Cambridge Electric Light — a deal worth $100 million.

It began a six-month deal supplying C&I default service to Northeast Utility's Western Massachusetts Electric July 1 and Fitchburg Gas & Electric June 1 — worth $6 million to the marketer.

The Maine supply deal is worth upwards of $30 million, Select said.

Canadian program makes curtailment work for many

A new Ontario program that lets large C&Is bid part or all of their loads into the energy market has signed up nine resources with 237 mw of potential load curtailments.

The Independent Electricity Market Operator's (IMO) Hour Ahead Dispatchable Load (HADL) program lets large users offer to curtail megawatts at a price they choose at least three hours ahead of the real-time market if the pre-dispatch price reaches a certain level.

The program guarantees firms get at least the difference between their offer and the real-time price if the real-time price is less than the pre-dispatch price.

A customer in the program could offer to curtail 25 mw of its 75-mw load for $45/mwh if the pre-dispatch price reaches $45/mwh and another 25 mw if it hits $50/mw.

If the pre-dispatch price is at least $50/mwh, the customer gets the difference between its bid and the real-time price if the actual price is less than its bid.

If the real-time price is at or higher than the customer's bid, the customer curtails load but doesn't get paid because it avoided paying the high hourly price.

HADL's advantage to customers?

Avoiding the highest-priced electricity by removing the risk of shutting down only to discover later the hourly price was less than expected and an hour of profitable production was lost.

HADL gives customers two-hour warnings that their bid was accepted. That lets more companies participate.

Few can respond just five minutes before they need to ramp down.

The Ontario market benefits by having dispatchable loads competing with generators to supply the last increments of energy, thus keeping prices down while boosting reliability.

HADL launched earlier this month yet the IMO expects to owe participants money at settlement time, an IMO official told RT.

Alaskan gas seller sees poor LNG prospects for West Coast

The board of Alaska's pipeline authority got back from a June 28 meeting in Valdez excited about the prospects of selling North Slope gas to Californians.

At the meeting, Sempra Energy and LNG importer Korea Gas told Governor Frank Murkowski, his daughter, Sen Lisa Murkowski (R-Alaska) and others they are eager to sell Alaskan LNG in the Lower 48.

The board asked ConocoPhillips Alaska's Joe Marushack for his view.

As manager for North Slope gas commercialization, Marushack is interested in a pipeline going to the heartland.

The prospects for selling Alaskan LNG in California haven't improved since his firm led an industry consortium that spent $14 million in 2001 studying the idea, the *Alaska Journal of Commerce* reported.

"We're not here to dissuade you from an LNG project, but to tell you why we found it to be uneconomic," Marushack replied.

His firm faces permitting problems and opposition to a regasification plant it wants to build in Baja California.

Of eight Baja California regasification plants in the works, he doesn't see a need for more than one because he believes the big growth in US demand for gas will be in the heartland, not the West.

Alaskan LNG will cost too much to compete with Asian supplies, he added.

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

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