

Restructuring TODAY

Friday April 27 2001

FERC blew it says Gov Gray Davis

"FERC had a chance to bring meaningful relief to California's outrageous wholesale prices and they blew it," said the California governor.

The catch that FERC hooked on, that the ISO must file an RTO submission by June 1 or all controls are off, really irked the governor who shudders at the thought of other states' people being in on setting California policy.

"It makes no sense whatsoever to condition the 12 months of relief proposed by the Federal regulators to California's willingness to join a regional organization that under the best of circumstances cannot be functional for another 18 months.

Davis reminded that last summer, the federal government found that wholesale prices were unjust and unreasonable, he quoted incorrectly.

"They have yet to enforce their finding."

Website compares power alternatives

A surge in sales of home power generation equipment and other power-saving technology was linked to the California experience.

Now, a new website from ResearchPB allows people to compare power options for homes. The site compares 18 energy alternatives including green ones and rates them from best to bad.

Researchpb.com lists what it calls "exotic" and "not off the shelf" alternatives like home fuel cells, wind funnels, home hydro and electromagnetic field levels (RF wave converters).

They list cost, cost per output, scalability, ease of installation and air pollution aspects.

The firm has taken information made available by government agencies about specific energy alternatives.

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4 stories in 1 minute:

White House ponders Calif QF

deals: The White House might let QFs out of their contracts with California's investor-owned utilities and sell on the open market, according to the *Wall Street Journal* in its online edition. IPPs told the paper that would free up about 3,000 mw. IOUs reject the idea arguing it would only add about 1,200 mw while causing dramatic wholesale price spikes. In its legislation fixing the California energy crisis, the Bush Administration may ask Congress to give FERC the authority to suspend the QF contracts, but White House aides wouldn't confirm or deny the *WSJ* report.

Wash regulators

OK Puget plan: Now Puget Sound Energy's energy conservation plan can start Wednesday. The plan rewards customers for conserving electricity and offers lower rates during off-peak times.

NY adopts uniform

marketing standards: New York's PSC told utilities by year end to adopt uniform billing practices and standards for exchange of routine business information -- an order for gas and electric marketers. The idea is to facilitate retail competition. NEM's President Craig Goodman was pleased because the association has been working for uniformity in billing and data exchange. New York is a high density marketplace and "this is a big step forward."

Gas trading sets

record at exchange: Natural gas trading set a daily record Tuesday at the IntercontinentalExchange (ICE) when 142 bcf changed hands. It's a commodity marketplace for energy and metals. Physical gas trades accounted for 30 bcf of the total. The firm's natural gas trading has been averaging 80 bcf/day, three times the norm in this year's first quarter. The firm's partners include AEP, Aquila Energy, BP, Deutsche Bank AG, Duke Energy, El Paso Energy, Goldman Sachs, Morgan Stanley, Reliant Energy, Royal Dutch/Shell Group, SG Investment Banking, Mirant, Totalfina Elf and Continental Power Exchange. See www.intercontinentalexchange.com.

Excelergy approaches black ink but keeps numbers secret

Second of two articles

How is Excelergy doing? What's the cash burn rate?

"We're just about self sufficient," replied CEO Bill Mahoney.

They set records with first quarter revenues, booking and cash flow but the numbers are not revealed. We had reported incorrectly in our report yesterday that Excelergy is a public company.

It's not. It's private.

The private financing round in January was to give them a war chest for incremental R&D and market distribution side investment and not to sustain the life of the company.

It followed December when Excelergy had its first cash positive period, he added.

"We're sustaining ourselves out of operations and have been for the last quarter."

Excelergy describes itself as the preeminent provider of software technology in products for restructuring.

We asked how they measure that.

"There's only one other player," Mahoney replied, that has executed what could be remotely described as object phase technology.

Peace Systems, he said.

What would we see if we walked in the front door at Excelergy's headquarters in Lexington, Mass?

"You'd see folks either sitting around tables, sitting in front of work stations, creating some of the best intellectual property that can possibly be applied to energy and utility problems."

Are they wearing Birkenstocks, we asked.

"We have an eclectic group here," Mahoney replied, "with utility industry veterans, software services veterans and unbridled youth."

The unbridled youth were sitting with him during the interview.

Facial jewelry?

"No," he responded. "Unlike the Grateful Dead we're a little more buttoned-down" with "a lot of MIT, Harvard, Brown, Northeastern grads here."

"Clean clothing ... shirts, polishable shoes but we're an informal firm to be sure -- very approachable and the reason that we're being successful is a

lot of people like to buy from us.”

That’s because they’re seen as being reliable on technology delivery and having “good people to do business with. We do what we say we’re going to do.”

Mahoney was picked to move Excelergy into the big time because of his experience at SCT.

“I inherited the SCT utility business

which had about \$8 million dollars in revenue a year, losing about \$4 million and when I left it was a \$100 million business making about 16% on the bottom line,” he explained.

What does he have in mind for Excelergy a few years down the road?

Faster growth than at SCT and without the struggling at SCT in its original product delivery. “It was poor

quality product delivery that I inherited. We do not have those types of issues.

“We have great products, extremely well engineered underlying technology and we don’t have the product and client satisfaction issues I grew up with at SCT.

“We’ve got a much cleaner slate.” His clients are learning now how to do more “with our stuff than we originally intended.

“We’re going to be able to grow faster than SCT did cause we don’t have to recover from some of these early deficits.”

What’s been California’s impact on Excelergy?

Positive, reports Mahoney. He’s sorry about the grief for Californians “but balancing supply vs demand is actually good for our business.”

He sees the investment in wholesale, transmission and supply business systems infrastructure (software and software related services) rising to \$1 billion over the next few years.

“All of those entities are going to need systems that forecast, schedule, trade and bill.”

“If you look at Pennsylvania and Texas even, here in Massachusetts they’ve got incremental supply coming online taking care of the incremental demand so you’re not seeing the type of end customer issues in those states that you’re seeing in California,” said Mahoney.

“As long as plant and equipment investments are being made” upstream “we’re happy campers because we’re getting a lot of interest in utilizing our technology” to manage intermediary relationships over the internet.

Critical to Excelergy is working with the big five -- Cap Gemini/Ernst & Young, PricewaterhouseCoopers, Accenture, KPMG and Deloitte & Touche -- the systems integrators who put in Excelergy’s programs.

“We believe the supply vs demand equation is what’s going to drive our business.”

Right now their market share is “tiny” -- \$10 million in revenues last year up from \$4 million.

“We’re ahead of our target this year to more than double from last year’s \$10 million.”

Who has the lion’s share of the market?

“It’s very fragmented. There isn’t one real owner,” Mahoney replied.

He counted seven or eight software firms doing distribution on the regulation side plus two to three that

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through SageWave: SageMaker of Fairfield, Conn now makes *Restructuring Today* available through the SageWave portal software. SageWave is a free, personalizable portal website where users access a wide array of free and paid information sources — all at one convenient website. “SageWave collects, integrates and organizes information from outside your firm, and combines it with your internal information resources in an easy-to-use, personalizable browser,” explains SageMaker.

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Next Day PowerTrax Index Wednesday April 27 2001

	Contract size (x16 hrs) mw	Total contract volume mwh	Highest executed trade \$/mwh	Lowest executed trade \$/mwh	Weighted average index \$/mwh	Last Month's average index \$/mwh
Cinergy	50	14400	45	41	43	41
Entergy	50	2400	60	55	57	44
TVA	50	4800	43	40	42	40
ComEd	50	8800	46	41	42	40
PJM West	50	8800	40.05	40	40	44
Palo Verde	25	10800	335	300	316	222
Mid Columbia	25	4000	335	325	334	276
COB	25	n/a	n/a	n/a	n/a	273
Four Corners	25	n/a	n/a	n/a	n/a	184
Mead	25	n/a	n/a	n/a	n/a	238
NP 15	25	n/a	n/a	n/a	n/a	253
SP 15	25	800	305	300	303	220

Pennies have been omitted and numbers rounded to the nearest dollar. For additional information contact PricewaterhouseCoopers at www.pgtrax.com.

work on the deregulation side.

Sun, HP win Davis' praise

Sun Microsystems and Hewlett-Packard get \$306,500 and \$422,000, respectively from the California Energy Commission for installing smart energy technologies in their buildings.

Together they shave 3.2 mw from peak demand or enough in that area to serve 3,200 homes, California Gov Gray Davis said.

Ill regulator finds formula for retail market opening

How to open a market?

Study carefully what California did and do the opposite, urged Illinois Commissioner Ruth Kretschmer.

She brought the house down with that observation at the National Summit on Energy Policy at Oklahoma State University yesterday.

An efficient wires network is needed to move power around first and that means someone has to live by transmission lines, she added.

The same goes for natural gas pipelines.

"If you want to put in a pipeline, come to Illinois, we'll site you," Kretschmer beckoned.

One Illinois legislator complained to the commission after a pipeline was proposed that would cross her property.

"We sited the pipeline anyway," Kretschmer noted.

Californians didn't want to live by generation or wires or pipelines and now are "getting what they deserve,"

she added. How can states gauge whether deregulation is a success, asked panel moderator Chuck Watson, Dynegy CEO.

Not by counting how many customers switch, replied Kretschmer.

Customer satisfaction determines success, she suggested.

Illinois has spent millions on education campaigns but "the reality is that most don't want to switch," she said.

If ratepayers are happy, then deregulation has been successful, the veteran competition supporter noted.

Kretschmer, a Republican, has served the Illinois Commerce Commission since 1983.

Regulators shouldn't judge market success, added Denise Bode, of the Oklahoma Corporation Commission. The duty for state commissions is to insure fair prices and nurture competitive markets.

Then "get out of the way," said Bode, a Republican.

Measuring success by how many customers switch is a concept from telecom but that's not a "viable" yardstick for electricity, she contended.

Competitive suppliers use profitability to gauge success in Texas, noted Waters Davis.

He's president of Reliant Energy's retail company and is charged with getting Reliant ready for the Jan 1 across-the-board opening of retail electric competition in Texas.

Davis' test of a good market is the variety of retail products available.

Texas starts its 5% of the market pilot in just 35 days but issues such as provider of last resort and price to beat have yet to be worked out.

If gas prices are higher then, the price to beat goes up.

He recommended the retail Texas

plan where prices can rise or fall. That should lead to a robust retail and wholesale market, he observed.

Other states will probably want to adopt this model, Davis predicted.

Reliant, Shell, New Power, Texas Utilities (TXU) and Green Mountain are major retail players in the Lone Star state.

Reliant will end up serving about 1.5 million residential and small business ratepayers that haven't switched, Davis figures.

Those customers will get a price fixed 6% below current rates.

Any movement toward opening markets in Oklahoma is dead but Bode said she is a strong supporter of deregulation.

Last year's uncompetitive version of market opening "thankfully" didn't pass, she said.

That gave the state time to learn from mistakes made by other states and build a bipartisan consensus, Bode noted.

She hopes that some "broad guidelines" will get through the legislature "in the very near future."

The Oklahoma commission wants to make sure the state's infrastructure is ready, Bode noted, citing at least \$1 billion dollars in needed transmission upgrades.

Several issues remain for Illinois to fix but Kretschmer said that their market model is one that can be adopted successfully by any state.

Her commission will aggressively pursue new generation.

About 1,500 mw of new capacity is slated to come online this year, she noted, joining the 3,200 mw that has been added in the past two years.

On the drawing board for Illinois is an additional 13,800 mw.

Look at nuclear power very closely,

Weighted average index April 2001

	2	3	4	5	6	9	10	11	12	13	16	17	18	19	20	23	24	25	26	27
Cinergy	44	39	42	49	50	53	63	66	57	42	46	48	55	47	42	61	43	35	34	43
Entergy	49	47	50	52	52	60	73	70	62	50	51	51	57	52	47	61	53	n/a	51	57
TVA	41	40	43	50	49	54	63	64	55	43	44	46	54	46	39	60	43	34	35	42
ComEd	40	36	40	46	48	54	59	60	53	40	44	48	52	46	43	56	40	33	34	42
PJM West	47	47	48	49	49	55	55	55	49	44	52	54	54	49	42	53	53	42	40	40
Palo Verde	231	233	235	208	177	147	169	179	173	154	229	227	227	227	159	192	248	290	332	316
Mid Columbia	285	308	314	348	294	310	382	380	417	376	381	258	258	258	229	265	283	316	333	334
COB	290	n/a	n/a	338	263	295	369	367	388	370	360	238	238	238	n/a	255	282	n/a	n/a	n/a
Four Corners	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mead	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NP 15	n/a	241	255	298	255	267	320	342	328	263	278	243	243	243	200	230	261	n/a	310	n/a
SP 15	226	233	n/a	221	160	164	180	177	174	161	220	226	226	226	169	198	235	n/a	218	303

Pennies have been omitted and numbers rounded to the nearest dollar.

she suggested. "It's the wave of the future," she said.

Gas producers serious about exploration, market's needs

The top 10 alone are spending \$41 billion on exploration and production this year, up 25%, and 80% of that is looking for gas, Skip Horvath, president of the gas producers association told an Agriculture subcommittee this week.

They've added 35,000+ jobs to look for oil and gas and 80% of the drilling is for gas, he added.

The active rig count is up 150%. He urged Congress to free access to promising lands now off limits.

He reminded that in 1990 producers had to replace about 10% of natural gas volumes with new wells each year just to bring consumers the same amount of gas they had the year before but now the decline rate is at 23%.

One thing gas has going for it, said Horvath, is that it's traded in an open and competitive market, with thousands of participants. We enjoyed Horvath's saying proudly that the hub system determines the price of natural gas that producers are paid. Consumers have saved some \$610 billion from this deregulated system since Congress let competitive forces into the market.

We remember Jan 1 1985 so vividly, the day when FERC's control of wellhead prices was turned over to a higher group -- buyers and sellers.

One day the electric industry -- even in California -- will rise to that level of development.

The beauty of gas prices is that if they fall too low -- as they did in the late 1990s -- people stop looking for it.

If they get too high, people start

using something else.

And you dear reader will one day tell the new people about how you remember when electricity at retail wasn't treated as a commodity.

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