Restructuring **TODAY**

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Pacific NW winter outlook has come a long way

The Northwest Planning Council upset a lot of people early last year when they forecast a possible 3,000 mw power shortage by 2003 unless someone added capacity (or cut load).

The council predicted a 24% probability of shortage and called that percentage "unacceptably large."

Prices began to spike shortly thereafter in part related to the California market imbalances.

Forecasters were upset at what they found to be a combination of factors adding up to a loss of load probability (LOLP) almost five times the industry standard of 5%.

Five percent means one event in 20 years.

We checked yesterday with Terry Morlan at the Northwest Power Planning Council in Portland. He's the manager of economic analysis there and author of the 3,000 mw report.

He's putting the final touches on the NWPPC outlook for winter and is happy to say the probability is back to 5% but the overall outlook for this winter -- remember the Northwest demand peaks in winter -- is "looking pretty good."

Loads were down 4,000 mw this past summer thanks to the BPA buyback of power from the aluminum folk plus a slowing economy, new capacity and higher prices' impact on power use.

The "looking pretty good" outlook is amazing in light of water conditions.

Remember that this year so far has the second lowest water levels on record. The eagle vision at the planning council had predicted in 1991 (Northwest Power Plan, volume one, page 19) shortfalls of 2,000 mw or greater by 2000.

"If the region fails to add resources by the turn of the century, there is enough electricity in only 17% of the estimated futures. In 83% of the possible futures, the region will be (in) deficit. In 65% of the cases, the region's deficit is 2,000 mw or greater."

Thank God for forecasters.

NY ISO eager to get best practices in big northeast RTO

New York's ISO wants to make sure certain of its "best practices" to get into a final Northeast RTO design.

These include the simultaneous running of energy and ancillary service markets and hourly evaluation that optimizes in-day resource management.

Those two issues are not part of the initial RTO design but they have to be added later to enhance the RTO, Charles King, ISO vice president for market services told a *Megawatt Daily* regional conference in Philadelphia yesterday.

He expects the ISO to be a regional hub under any RTO design.

While PJM is the one system to model the RTO on, he agreed, there are benefits outside its realm.

By separating energy and ancillary services markets while operating them at the same time, the ISO ensures capacity is committed.

It's important to know where reserves are in the tightly balanced market.

He advised FERC to do some new analysis before the RTO's launch now set for seven months from now.

He urged a cost-benefit analysis to learn whether benefits can be found for a compulsory merger of smaller operations.

A controversial Mirant study showing savings of $400 million was called a tad optimistic by conference participants but the benefits are expected to show savings maybe in the order of $200 million per year.

The New York ISO thinks once costs are examined by FERC those numbers should be compared to less intrusive operations resolving seams issues or creating a day-ahead market.

Add to that, he suggested, best practices and a technological assessment.

All three Northeast ISOs should be given equal representation within the RTO governance, King said.

The New York theme is to get on with it.

King quoted an ISO board member:

"If you don't know where you are going, any road will lead you there.

"Do a little planning of the technology assessment and pick the right path. It's very important. It's never been done before," King stressed.

Can marketers, utilities agree on POLAR policy? Craig Goodman says yes

Can marketers and utilities reach consensus on a pricing structure for providers of last resort (POLAR)?

We asked Craig Goodman, president of the National Energy Marketers Assn, having heard they're about to try.

The question is relatively simple.

Should utilities be forced to sell power below the cost of providing it?

Costs are much higher than for any other service but lawmakers and regulators often hide these costs from the consumer thus sending false price signals to the marketplace and hindering investments in conservation and load shifting, says Goodman.

State regulators tried that experiment in many states and it fails miserably. California or Rhode Island, Massachusetts and Maine come to mind.

The marketers were forced out of the marketplace and utilities in some areas are having trouble recovering the true costs of POLAR service.

That's why Goodman hopes to win utility support for sane pricing.

What would be fair, work and foster robust markets would be to require utilities to price above market.

Utilities don't want to do that.

Higher prices encourage the public to shop and that takes the fun out of being a monopoly.

Goodman's challenge is to convince utilities that it is in their best interest to price POLAR services fairly since over the long term it will become harder to hide losses in future rate cases.

Realistically he thinks NEM can help forge a consensus on pricing structure but he worries that politicians will follow the California model of selling power for less than it costs.

Everyone who has studied the problem knows that it is wrong to price energy below cost and it's wrong for utilities or competitive POLAR suppliers to provide energy at a price that does not include - ancillary services, load-shaving costs, delivery losses, risk hedging for price spikes and the bad debt associated with POLAR customers.

That's where he sees hope for an accord with utilities — especially those that have not been recovering true costs.

Goodman and NEM favor bidding out POLAR service yearly to the lowest

bidder. The winner will have to price to cover real costs of POLAR service and a profit.

Is that cost of service pricing or free market pricing?

It's market pricing where the POLAR bids to get the responsibility and to sell at enough of a profit to make it worth doing.

The bidder sets the price and lives with it or dies.

Instead of costs being calculated by regulators where the utility is encouraged to fatten costs, the price is calculated by the seller that wins the bid by really trimming expenses.

Goodman cited long distance phone prices.

In 1984 it cost $5.15 for a 10-minute call from Los Angeles to New York City because the government figured what the price should be. With market forces today that call would be about 50¢.

How much fat is there in a 10¢/kwh retail price today?

Goodman suspects that at least 5¢ should be subject to price competition of one form or another.

If the public had to pay 13¢/kwh to a POLAR supplier it would encourage the public to shop and the POLAR might make some money.

But when the competitive retail marketer is the integrated utility that's been serving the area for 100 years and has the opportunity to cross-subsidize its retail prices thereby undercutting competitors, look out.

First, who is to price the power?

If it's priced by politicians appointed by the governor, the pricing will be political, not economic. The public needs to get political people out of the picture.

In Goodman's paradigm, an accord can be struck between marketers and utilities favoring pricing that doesn't put the utility into bankruptcy.

Then you run it by the politicians and hope for the best.

"I don't think any utility in the country wants to remain in a POLAR position with losses out into the indefinite future without a guarantee of recovery," he asserted.

PJM official tells why PJM is best

It's deregulation that works, said Ken Laughlin, and thus is the best candidate for being the model for the Northeast RTO.

Laughlin should know. He's PJM market services vice president. How big is the system?

His slides showed PJM/PJM West together edge out Tokyo Electric for second place in the world, behind France's EDF.

PJM/PJM West has a 64,725-mw peak output from 608 generating units against EDF's 72,389-mw from the same number of plants, mostly nuclear.

Tokyo Electric runs 64,300-mw peak from 147 generating units.

ERCOT is listed fourth at 57,606-mw peak.

The PJM model, Laughlin said, is about earning trust by providing information for transmission, load and generation in real time and without filters.

Four years of lessons have taught PJM to focus on this thirst for real markets in real time with real information.

All that reality gives players continuous trading, choice and instant use of electricity, he says.

Information transparency means updating prices every five minutes, using the internet, making data available to all and monitoring markets in current time.

He praised the voluntary balancing energy market and voluntary financial day-ahead market.

Locationally-based congestion management, transmission service provider, bilateral sales for generators and the fact load may choose to self supply or use the market were positives for PJM in his mind.

Grid repair just may not cost so much afterall

Laura Manz, Public Service Electric & Gas director of interregional transmission, counseled grid people not to spend too much on building new transmission when only a little spending might do the same job.

She singled out the Northeast for its lack of transmission capacity but she sees it as a lack of price signals, she told the conference (above).

"We don't price where the congestion is," added Manz. Why spend $10 billion to ramp-up capacity when a $1 million solution could be the answer -- using Locational Marginal Pricing (LMP) for example, she asked.

On the same panel Dynegy's Matt Picardi is trying to figure out where FERC's headed on RTO policy. He's a Dynegy director and regulatory counsel for the Northeast. He hopes FERC gets rid of the native load issue by ordering only one tariff, combining the best parts of the network and point-to-point systems.

Dynegy likes the way the natural gas market was set-up and backs an approach for electricity similar to Order 636. Picardi favors a flourishing bilateral market as in gas giving customers and sellers the ability to take a portfolio approach to managing needs and assets.

The power market forgets electricity has more in common with gas than one might believe, he reminded.

"Electricity is vastly different than gas but we don't think they are as different as people say," Picardi noted.

He, like Manz, backs LMP for residual balancing markets and thinks congestion management should be the market's responsibility.

Residual congestion can be handled by LMP for parties willing to pay for redispatch, he added.

RTO players should be able to self-schedule and self-supply, he urged, to take into account physical needs, since financials are not always the best answer.

He worried that stranded costs are being created for ISOs.

He asked whether ISO New England's market design is adaptable to whatever comes along for the Northeast RTO.

FERC has a lot of work to do in clarifying what it wants in terms of best practices included in the RTO.

The July 12 FERC orders, which Picardi notes Chairman Pat Wood regrets ever having been issued, told the three ISOs three different stories.

ISO New England was told by FERC that the commission encourages the trio to look at the best practices each have and adopt those market rules that would be best for a single RTO.

PJM was told that while FERC expects the PJM platform to be the model for the Northeast, the commission expected the RTO proposal to incorporate the best practices of New York and New England.

Finally, Picardi noted, FERC told the New York ISO that PJM has to open to changes and improvements suggested by others.

"Why the nod to New York? It just opens up the process to confusion," Picardi said.

Turning to the 45-day Northeast RTO mediation process, Dynegy called it a waste of time and millions of dollars for market participants.

"Order 636 provides the model.

There is no reason that the electric industry cannot take three up and running ISOs and come up with a single, optimal RTO in two years," he asserted.

A fast track approach by FERC, Picardi advocated, will tackle issues like market design, governance, monitoring and mitigation and settle disputes over technical disagreements.

How about 2,800% growth at Eagle?

Eagle Broadband, supplier of broadband wired and wireless products and services, announced today that it will host a fiber-to-the-home (FTTH) Forum for analysts, brokers, investment bankers and major investors tomorrow at the Omni Hotel at Four Riverway in Houston.

Call Eagle at 1-800-628-3910 if you'd like to attend. Why go?

They'll tell you about their strategic planning "that has allowed our company to experience a 514% revenue growth over four years and a 2,800% growth in revenue over the past four and three quarter years," the firm said.

That got them into the Deloitte & Touche's 2001 Texas Crescent Technology Fast 50 Program, a ranking of the 50 fastest growing technology companies in the state.

They have some really forward looking statements for the attendees.

TXU signs BNSF: Paying the electric bill along the Burlington Northern Santa Fe Railway is such a bother. BNSF has hired TXU Energy Thursday to do energy management across its 35,000-mile system in 28 states. The railroad has 20,000+ utility accounts for rail operations, yards, repair shops and office complexes. TXU may or may not provide the energy. The rail grid's headquarters is in Ft Worth.

Sempra finds

Sweetheart: Sempra Energy Solutions signed up Sweetheart Cup of San Diego for an energy service contract expected to save $5.5 million.

MISSION: To show where the converging communications and energy industries are headed as they create America's biggest industry focusing especially on the opening up of competitive wholesale and retail markets.

Abbreviations: **AGA**, American Gas Assn; **ALJ**, administrative law judge, a hearing examiner within a regulatory agency, a fact finder; **APPA**, American Public Power Assn; **API**, American Petroleum Institute; **ATC**, available transfer capability; **bcf**, billion cubic feet; **BPA** Bonneville Power Administration; **cfd**, cubic feet/day; **CFO**, chief financial officer; **CIO**, chief information (IT) officer; **C&I,** commercial and industrial; **CLEC**, competitive local exchange carrier; **CTC**, competitive transition charge used to recover costs stranded by customer freedom; **DG**, distributed generation; **DSL,** digital subscriber line, **dkt = dekatherm** = mmbtu, is roughly = mcf; **DOE**, Department of Energy; **DSM**, demand side management; **ECAR**, East Central Area Reliability Coordination Agreement; **EEI**, Edison Electric Institute; **ELCON**, Electricity Consumers Resource Council; **EPA**, Environmental Protection Agency; **EPRI**, Electric Power Research Institute; **EPSA**, Electric Power Supply Assn; **ERCOT**, Electric Reliability Council of Texas (but not all of Texas); **FCC**, Federal Communications Commission; **FERC**, Federal Energy Regulatory Commission; **FRCC**, Florida Reliability Coordinating Council; **G&T**, generation and transmission; **GAPP**, General Agreement on Parallel Paths; **GRI**, Gas Research Institute; **gwh**, gigawatt hours = 1,000 mwh; **HVAC,** heating, ventilating and air conditioning; **ILEC**, incumbent local exchange carrier; **INGAA**, Interstate Natural Gas Assn of America; **IOU**, investor owned utility; **IPP,** independent power producer; **ISO**, independent system operator; **ISP**, Internet service provider; **kv**, kilovolt; **kwh**, kilowatt hour; **LADWP**, Los Angeles Department of Water & Power; **LDC**, local gas distributing company; **MAIN**, Mid-America Interconnected Network; **MAPP**, Mid-Continent Area Power Pool; **mcf**, thousand cubic feet; **mmbtu**, million btu generally equal to mcf; **1 mw** = 1 megawatt or 1 million watts, enough power to supply 330 homes for one hour on a hot summer's afternoon; **mwh**, megawatt hour; **NARUC,** National Assn of Regulatory Utility Commissioners; **NERC**, North American Electricity Reliability Council; **NOPR**, notice of proposed rulemaking; **NPCC**, Northeast Power Coordinating Council; **NRECA**, National Rural Electric Cooperative Assn; **OASIS**, open access same time information system; **OMB**, Office of Management & Budget (White House); **PEM**, proton exchange membrane (type of fuel cell); **PJM**, the Pennsylvania-New Jersey-Maryland ISO and reliability region; **ppm, ppb** parts per million, billion; **PSC,** Public Service Commission; **PUC**, Public Utilities Commission; **PUHCA**, Public Utilities Holding Company Act; **PURPA,** Public Utilities Regulatory Policy Act; **PX**, Power Exchange (California trading center); **QF**, qualifying facility under PURPA; **RBOC**, regional Bell operating company; **RFP**, request for proposal; **RTO**, regional transmission organization; **SEC**, Securities & Exchange Commission; **SERC**, Southeastern Electric Reliability Council; **SPP**, Southwest Power Pool; **T&D**, transmission and distribution; **tcf**, trillion cubic feet; **therm**, tenth of an mmbtu; **TLR**, transmission line loading relief, the failure of a transmission provider to make good on a firm agreement to move power; **TURN**, The Utility Reform Network, California ratepayer group; **TVA**, Tennessee Valley Authority; **USDA**, US Department of Agriculture; **WSCC**, Western Systems Coordinating Council. **UTC**, United Telecom Council.

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