restructuring
TODAY

Tuesday June 11 2002

ONCOR president picked as top ERCOT official

The ERCOT board of directors met via telephone conference yesterday afternoon and unanimously elected Mike Greene, president of ONCOR Transmission and TXU pipeline, as its chair. Bob Manning, director of engineering for HEB Grocery, was chosen ERCOT's vice chair.

The nominations were offered by PUC Chair Rebecca Klein.

ERCOT CEO Tom Noel commended the board for its swift action.

Greene was ERCOT board chairman in 1997 and 1998 and has been a member of the board for six years.

Manning has been a member of the ERCOT board since 1999. The seats became open when Jack Hawks of PG&E National Energy Group resigned and Vice Chair Milton Lee notified his colleagues that the press of his duties as CEO of City Public Service prevented him from moving up.

For grid users who want a grip on LMP strategy? RW Beck is touting a menu of services to help transmission users fashion LMP strategies in PJM and markets where LMP will almost certainly be tapped for congestion management. The company offers LMP studies for developing the locational value of assets and transmission rights, weighing the costs and benefits of transmission investments and forecasting the effects of congestion on revenue.

Duke to sell power to Nevada IOUs: Duke Energy North America has agreed to provide gas and up to 1,000 mwh to Nevada Power (NP) and Sierra Pacific Power (SPP) in the upcoming June 15 to Sept 15 peak period. As part of the deal, NP and SPP agreed to drop a complaint at FERC challenging market-based rate pricing in power supply contracts signed with Duke in fall 2001.

What's in store for industry?

Part two of two articles

"We'll pass through this turbulent time," predicted Erle Nye, retiring EEI chairman and CEO of TXU Corp.

He sees "a lot of fine companies with impeccable records, a long tradition of consumer service and ethical conduct... and make the transition over time to competition and the consumer and the nation will be better served because of it."

What is the electric industry's biggest challenge now?

To "finish off an effective energy bill," Nye replied and that means getting the industry's views into the conferees.

Equally important is to balance three areas — the economy, energy and the environment. Nye decided an equally important imperative is setting up a competitive wholesale market.

The last time we asked, Nye had wanted to complete the transition to retail competitive markets but now he thinks the transition is over in Texas save for a few clean-up items.

His move into the upper Midwest with a Texas retail plan is out front in his thinking. In Europe he wants to solidify TXU's position in the UK and to expand on the continent along the lines of what it's done in Nordpool.

As markets open, he wants to be there, around the globe. After Enron, TXU looked over its business to see how it could improve. "We're making much more complete disclosure," Nye said.

"It serves our purpose because it shows that we do have sound accounting, that our mark-to-market practices ... are sound.

Is it too late for the industry to police itself?

"There's a number of places where we could tidy up," he replied. "And it's not too late." But some regulation is necessary, he was quick to add.

Ore finds way to lure big shoppers: The Oregon market opened and no one came -- none of the really big customers who you would expect to find even small savings important. So the stakeholders have put their heads together and come up with a plan to allow big buyers to leave the system without big penalties. The PUC staff has agreed and in Oregon that means the rubber-stamp members will go along too.

Crisis leads NEMA to refocus meeting

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EPSA developing code for merchant generators

Craig Goodman, spokesman for energy marketers, described today's wholesale markets crisis as the most profound in the 25 years he's been active in the industry.

He's president of NEMA.

"It's not just the plummeting of share values, he explained, but the plummeting of confidence in some of our major institutions," he said, citing "a whole host of otherwise premier energy companies that have been hurt very badly in the equity markets because of the credit, risk management, financial governance issues that have been fallouts from the Enron affair."

NEMA has refocused its annual meeting June 20-21 in Washington "to focus on the crisis in the wholesale energy market."

They're working feverishly to come up with an industry standard "strawman on an industry standard for credit, risk management and financial governance."

FERC Chairman Pat Wood is to moderate a stakeholder discussion on the meeting's second day, on how to make energy markets work.

Goodman has confirmed CEOs from Canada and the European Union along with US energy counterparts plus telecom, software, financial services and risk management leaders.

He defines the crisis as today's crunch in liquidity, equity valuation and loss of confidence in financial governance brought about by a series of disclosures, the transparency of what's been disclosed, the industry's accounting and the trading practices.

EPSA has put together a "blue-ribbon effort" to create a code of conduct for the merchant generator segment of the power industry — to show "regulators, other policy-makers and certainly our customers, the industry's commitment to the highest ethical standards of operations," said Lynne Church, EPSA president.

Such efforts are emerging as a form of damage control for the industry with several recent efforts to standardize codes of conduct, "best practices" or credit standards, including a group of chief risk officers (RT, 5/29) and an EEI effort (RT, 6/3).

A galaxy of EPSA's biggest members have stepped forward to participate, including the CEOs or COOs of the marketing or merchant power affiliates of Allegheny Energy, Aquila, Cinergy, Conoco, Constellation Energy, Duke Energy, Dynegy, Exelon, Mirant, NRG North America, Ontario Power Generation, PG&E National Energy Group, PSEG Power, Reliant Energy, Shell, TECO Energy and Williams.

Exelon's General Counsel Betsy Moler — a former FERC chairman is — on the committee.

The group will seek input from its customers and other groups, PG&E National Energy Group CEO Thomas Boren said, adding it "will serve no one if this code does not meet the expectations of our stakeholders."

Locker room chatter becomes another Davis smoking gun

A conversation between traders from Xcel and Mirant is evidence of coordinated gaming of the California market and may require a Justice Department investigation, Gov Gray Davis said yesterday.

In answer to a transcript released by FERC, Duke Energy, Mirant, Xcel Energy and Williams yesterday denied any wrongdoing.

Xcel and Mirant traders discussed ways to schedule non-existent power and get paid for relieving congestion on the grid, the transcript revealed.

Duke and Williams were named in the conversation as linked to the deals.

The tactics discussed in the trader's conversation were legal and refer to "routine, legitimate activities," Mirant said in a statement yesterday.

But the transcripts revealing dialogue between employees of the former Southern Co Energy Marketing and Xcel's Public Service of Colorado "can be easily misinterpreted," Mirant acknowledged.

The traders wanted to hike California's power supply and were successful in relieving congestion, Mirant claimed.

"We scheduled load because California utilities routinely under-forecast energy demand. We also scheduled load to improve the availability and efficiency of our power plants and to improve grid reliability," Mirant CEO Marce Fuller maintained.

Utilities routinely underestimated their electricity needs by about a third, the ISO confirmed, to take advantage of lower prices in the real-time market.

The tactic backfired when spot market prices spiked and utilities could not pass on higher costs to consumers protected by a rate freeze.

Williams bought transmission rights to protect its ability to deliver on long-term contracts, the company contended.

The revenue from the sale of transmission rights, Williams said, was only $1.9 million.

The talk between Mirant and Xcel traders was "locker-room chatter," Duke said yesterday.

"It is irresponsible to treat gossip or speculation with the same regard that is given to sworn statements," Jim Donnell, CEO of Duke Energy North America, said.

Any indications of wrongdoing, Donnell promised, will be corrected.

The disclosures don't incriminate all companies or get to the heart of the state's power crisis, said Severin Boorstein, director of the University of California's Berkley Energy Institute.

"It's pretty disturbing dialogue but that in itself doesn't say it was the source of the state's losing $9 billion," Boorstein maintained.

NewPower quits Texas market

The Texas PUC yesterday approved the transfer of NewPower's customers to TXU Energy Services.

The PUC acted on the confidential agreement reached between TXU and NewPower Thursday filed with the PUC under seal the next day.

The deal is a "permitted acquisition" and will not be considered slamming, PUC Executive Director Lane Lanford wrote NewPower's Mark Manley and TXU's Chadwick Small.

NewPower's customers will get lower prices than those offered by the POLR, TXU Energy's Carl Bracy assured the PUC in a confidential affidavit.

The customers will be allowed to choose an alternate supplier, the PUC ruled, "or negotiate other mutually agreeable terms of service with TXU Energy."

Thus 45,000 NewPower customers in the Dallas area go to Reliant Energy Retail Services and 35,000 customers around Houston go to TXU Energy.

PUC approval came from the PUC's executive director.

The PUC staff promised to work with ERCOT to ensure the necessary switches go smoothly — whatever that means.

TXU's adding 34,000 Houston-area customers makes TXU Houston's second largest supplier after Reliant.

Calif PUC has big job in taking on effective ILECs

The California PUC has a tough job ahead in its quest to encourage competition in the state's telecom business. The market still is firmly in the grasp of ILECs like Pacific Bell and Verizon that control 94%+ of the local phone lines, the PUC found. Competitive CLECs own the scant leftovers.

Incumbents control local toll services — calls not local but not long-distance either — with 76% of the market.

CLECs and long-distance carriers have the rest of the market and are growing at a faster clip than ILECs in that part of the business.

Wireless services have been the real growth market — up 48% from 1999 to 2000 and 4 million new customers — and a bright spot for competition.

At least five service providers are selling in each California area code.

Consumer enjoyment of competition is harmed, the PUC said, because service switchers must leave their phone numbers behind and pay high fees to break contracts.

Barriers to entry are the limited bandwidth all must share and the diversity of technology standards.

Two or three players are emerging as dominant in the business, reducing competitive choice, the PUC fears.

California is the only state where DSL service dominates over cable modem for web access, the PUC found, because cable modem isn't available everywhere.

In communities where 25 million people can hook up DSL, 11 million can't get cable modem access while the number of DSL providers has plunged leaving the incumbents — Verizon and Pac Bell — with 90% of the DSL market.

To spur competition, the PUC will review prices competitors have to pay ILECs to get into incumbent networks and ILEC regulations.

The PUC will lobby the FCC to promote broadband competition and number portability for cell phones.

The PUC issued a consumer bill of rights that toughens the standards for

CLECs and ILECs alike and wants comments by June 26 (RT, yesterday).

Williams slashes risk management in downgrade wake

Williams continues to retool its business portfolio in light of investigations of its marketing practices and Moody's downgrade of its credit rating Friday.

The company said yesterday it would reduce its risk management business by around $500 million this year to $750 million-$1 billion from $1.3 billion-$1.6 billion.

The cutback will save the company around $50 million/year through layoffs and deferring purchases of new information systems.

"Risk management is a business that will continue to be a part of Williams' balanced portfolio," said CEO Steve Malcolm, adding that the products continue to produce very strong returns for the company.

"And it provides vital services that enable customers — like municipalities, investor-owned utilities, energy producers and large industries — to deliver energy supply and price predictability in regions of the country that have thoughtfully and effectively deregulated their markets."

Williams was one of four companies threatened last week by FERC with the revocation of their privilege to sell electricity at market-based rates and vulnerability to FERC-ordered refunds (RT, 6/5).

Three of the companies are utilities for whom FERC-defined, cost-of-service rates would not be serious blows, in the eyes of Fitch rating people.

For Williams, Fitch noted, it's a far more serious matter.

"The potential removal of market-based, rate-making authority could materially impact the profitability of [Williams'] WMB's energy marketing and trading business," Fitch said, a business that provided 30% of the parent's earnings.

Worse still is the impact on the margins Williams would earn in future contracts for the unhedged portion of its power-tolling portfolio, Fitch added.

The company told analysts last week that its customers were "hanging in with them."

The deals are shorter-term, Williams Energy Marketing & Trading CEO Williams Hobbs said but "they're not pushing away from the table" (RT, 6/5).

PJM seeks market approach to capacity penalty

PJM's Market Monitoring Unit (MMU) is crafting a more aggressive policy to avert gaming in its capacity market, MMU Director Joseph Bowring told a news conference at PJM's Washington offices yesterday.

QUOTE OF THE DAY: The aim is to have a market-based solution but not allow market participants to set the price at whatever level they think is appropriate.

Bowring to reporters yesterday at the release of MMU's State of the Market Report 2001.

PJM's energy market last year was "reasonably competitive," but the capacity market "experienced a significant market power issue in the beginning of the year," MMU found.

PJM launched a market manipulation probe later joined by the PUC and the Justice Department.

PJM did not initially name a specific utility but it was eventually reported that PPL was the focus of the probe.

PPL denied gaming the market and blamed the incident on a flawed market design.

PJM addressed the immediate causes of the market power by changing the rules, the MMU noted, but "market power remains a serious concern."

The MMU's proposed fix would take into account "all real-world opportunities" that generators might have, Bowring revealed, but would include limiting maximum bids.

"We would let market entities make their best argument for the value of capacity but limit their offer price to that," Bowring explained.

PJM and the New York ISO are working to end barriers to entry so that New York generators can sell capacity into PJM, Bowring said.

Bowring recognizes PJM's capacity market has few competitors but it's still needed in his view to "retain the link between planning for reliability and the markets."

Beyond the capacity market, Bowring said, PJM had "no significant episodes of market power" because imports provided competition during hot weather.

Average prices in PJM increased last year over 2000, the MMU reported with the simple hourly average system-wide locational marginal price (LMP) being just over 15% higher at $32.38/mwh compared with $28.14/mwh in 1999.

But when fuel prices are accounted for, the average last year was 7.6% higher than in 2000.

Average prices would have fallen, Bowring said, were it not for a heat wave during the week of Aug 6 last year.

If the impact of high prices for that week were excluded, the MMU found, the average load-weighted, fuel cost-adjusted price would have been $29.98, a 5.7% decrease from 2000.

Net revenues last year, the MMU reported, from all markets "would more than have covered the fixed cost of a peaking unit with operating costs of about $45/mwh running during all profitable hours."

Congestion costs on the PJM grid, the MMU study discovered, increased from $53 million in 1999 to $271 million last year, mainly due to greater congestion at PJM's western interface.

The MMU wants PJM to identify areas where investment in grid expansion would ease congestion that helps give generators market power.

The MMU would keep PJM's bid price cap of $1,000/mwh and the $100/mwh in its regulation market.

It would not make sense to get rid of the price caps, Bowring contended, until supply and demand are roughly equal.

PJM is taking steps to implement the MMU's proposal, reporters were told.

If only they could find a new way to discourage market entrance **using market forces**.

Consumers Reports gives competition bad grades

Consumers Reports may do a good job when they tell you what breadmaker to buy or who has the best station wagon.

But when they talk about hard economic subjects like deregulation of California's electricity market they're in over their heads.

For example:

"Deregulation isn't all it's cracked up to be," the pundits wrote in a recent issue as if California had tried it and it was a bum idea. The way California did it was a dumb idea but the CU article makes it sound as if deregulation was to blame instead of political mistakes.

The unhappiest electric customers, the authors found, are those who lost power in last year's California blackouts. CU wants to give the impression that California tried competitive markets and it made the lights go out.

The waste material runs in CU's July issue.

Deregulation of the electric market "has not honestly happened yet," the Consumers Union (CU) report claimed but did they point the blame at state regulators who have rigged markets not to work?

No.

And we don't favor regulating consumer publications.

Peace cited signing of 60,000 customers in Texas market

How do you sign up 60,000 Texas retail customers in six months? Peace Software says its Energy software was no small part of the process.

Peace provided Centrica North America's Energy America and Direct Energy retail marketing units with customer management software on short notice, the software developer said.

Centrica wanted it ready to use in time for the openings of the Texas market in January and Ontario in May.

Peace installed its Energy Enrollment, Customer Care and B2B components in time for the openings, followed by its Energy Billing module, it reports.

Other components will follow.

"We delivered two comprehensive solutions for very complex and different market models within a tight, eight-month timeframe," said Charles Giliberto, Energy America/Direct Energy commercial relations director.

"Both markets are supported on a single energy system spanning two different countries and currencies."

The companies intend to link their Peace system up to financial and customer relationship management software.

The marketers relocated and enlarged their Toronto call center to more than 500 reps to cover both markets.

Reps work on either the Texas or Ontario markets but use the same computer system.

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; dkt = dekatherm = mmbtu, is roughly = mcf; DOE, Department of Energy; DSL, digital subscriber line, 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; LMP, locational marginal pricing; 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; NAESB, North American Energy Standards Board (replaced GISB); NARUC, National Assn of Regulatory Utility Commissioners; NEMA, National Energy Marketers Assn; 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; Ofgem, the UK Office of the Gas & Electricity markets; 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; POLR, provider of last resort; 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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