restructuring
TODAY

Tuesday June 25 2002

4 stories in 1 minute:

Those crazy gas prices move again: It didn't make much sense that Nymex gas futures dropped to $3.18 last week, according to Kirkland, Wash-based energy consultant Jackson Mueller. That's especially so given the shakeups in corporate executive suites, scrutiny of 2000-2001 price spikes, technical trading volatility earlier this year and the Middle East oil crisis (gas prices tend to move with oil). Jackson sees $3/mmbtu as a "better price" for gas and wasn't sorry to see Henry Hub July futures fall. The July contract was back to $3.43 yesterday. Mueller was advising clients to buy for next month before the price gets any higher.

Siemens says tough times will continue: Siemens Power Group President Klaus Voges sees continued tough conditions ahead for the US electricity market. "The whole sector is feeling the end of the gas turbine boom in the USA," Voges said to reporters Saturday in Frankfurt. Sales of gas turbine generators and related products provided Siemens with nearly half of its operating profit last year. In addition to the effect of slowing demand, Voges revealed, there is a "gray market" of used gas turbines coming back for sale. Voges plans to balance a decline in US orders with business in China and other boom regions.

Williams chops back traders: Williams is laying off about 16% of its trading floor staff in Tulsa — 125 employees — and already let go a small number of workers in its European trading operations, based in London and Houston, a company official confirmed. Williams has about 800 trading-related employees out of a total workforce of about 12,400.

CORRECTION: BG&E is saving millions of dollars and estimating 160,000 fewer bills each month with its switch to new meters, says Joe Bunch, director of meter services at the utility.

Calif politicians got it wrong GAO confirms

Government market controls are "chilling" the energy market, a California congressman said after reading the General Accounting Office's (GAO) new study.

"When the government controls the marketplace and simultaneously represents the largest market participant, it sends a chilling signal to other market participants," Rep Doug Ose, R-Calif, charged. Ose and Rep Steve Horn, R-Calif, requested the study.

GAO declared supply shortages the root cause of California's energy crisis and found that regulatory uncertainty caused by state control of the ISO and power buying by its Department of Water Resources compounded energy shortages.

Ose used the report to chastise "certain politicians in California who have tried to convince the public that there was no real shortage of supply."

The perception that the state is seeking to abrogate its long-term power contracts, the GAO added, has raised concerns about the finances of some projects.

"Due to the risks in the current market, energy development in California may require higher returns and more stringent loan terms," GAO concluded.

California's prerequisite that the Energy Commission give its approval for power plant construction, GAO pointed out, is an added step states like Texas and Pennsylvania do not have.

Plant permitting took longer than 18 months in California, GAO noted, 14 months in Pennsylvania and eight months in Texas.

Of 49,000 mw of generating capacity built in the US between 1995 and last year, the report found, Texas accounted for 59%, California 24% and Pennsylvania the rest.

Unless FERC acts soon to address the governance issue, the state will again face supply shortages, blackouts and spiking prices, Ose said.

Gov Gray Davis' office said Ose's "doomsday scenario" of the energy market was "a far cry from reality."

The GAO's conclusions "should come as a surprise to no one," said Rep Anna Eshoo, D-Calif, and pushed again for FERC to extend mitigation measures.

Giant paper firm snubs outsourcing

Sempra says do it

Is energy outsourcing the best route today?

The issue was the center of debate at the EyeforEnergy conference on strategic energy management in Philadelphia yesterday.

International Paper's Norman Davis was against it. Energy is so critical to their business that they can't find an offer that works for them.

Sempra Energy Solutions President Bob Dickerman disagreed, of course.

Dickerman described outsourcing as a way to get investment into your business by the supplier and into your industry. Many of the deals Enron sold were to firms with poor credit that took the check for the sale of their assets to Enron and used that money for working capital to keep them going for several months.

He described poor credit customers as a lively market for outsourcing.

Enough companies do want to outsource that Sempra's business has been growing in excess of 100% a year over the past three years, Dickerman reported.

He didn't say how, but if you list the firms that have gotten out of the business, Sempra's competition is down to just Constellation Energy, the company that bought NewEnergy, and maybe Reliant, although it has its hands full now with circular trades.

International Paper feels a great need to be competitive despite having 113,000 employees to protect and $26 billion in annual revenues to grow. Buying energy is critical considering it spent just under $1 billion last year for energy not including cogeneration.

The company has bought so many paper and packaging firms it's just launched a retrenching program after buying Union Camp and Champion Paper.

It's laying off 12,000 people and shutting millions of tons of capacity.

Davis is director of global energy buying.

He told fellow energy buyers that they had better get their buying strategy plan woven into most everything their companies plan to do or face "the disconnect and problems."

How does International buy? Two people buy gas, with one buying from one group of pipelines and the other buying from the rest.

The company had three power buyers but with the closing of several plants it gets by with just two now. Markets are divided up with one buying from some states and the other buying from the rest.

International has a lobby full of people offering to outsource energy solutions where the supplier puts up the money and gets paid out of savings.

The problem for Davis is that his CFO — and most others — are going to require that the long-term commitment is capitalized.

"You might as well spend the money yourself," he added.

International saves money by putting in cogeneration where it can and selling excess power into the market when the price spikes.

Davis is reluctant to buy 20-year deals for fear a plant may have to shut down and the payments for energy would have to continue.

Freeman denies LADWP ricocheted

The California Senate yesterday delayed a vote to confirm David Freeman as head of the Department of Water Resources amid allegations that LADWP used a "ricochet" trading scheme when Freeman was general manager.

Power marketers might have used LADWP's transmission lines to conduct illicit trades without the agency's knowledge, Freeman told reporters over the weekend.

Freeman offered his theory in answer to questions about a November 2000 email from a Pacific Gas & Electric (PG&E) trader warning others to "beware of ricochets with LDWP." LADWP did not engage in the questionable trading practices described in Enron memos, LADWP Assistant Manager Henry Martinez said last month in a sworn statement to FERC.

"I hope for their sake it doesn't turn out to be what it initially appears to be, and that is that the LADWP committed perjury," said state Sen Joseph Dunn, D, whose oversight committee released the email over the weekend.

"We weren't traders. We didn't buy and sell power on a daily basis like Enron and those other guys," Freeman agreed.

The utility owns rights to the main transmission line that crosses the California-Oregon border and connects Southern California to the Pacific Northwest.

The email likely refers to trades where power was transmitted to the California-Oregon border and bounced back but more study of LADWP trading records is under way, Martinez contended.

Freeman left LADWP in the spring of 2001 amid accusations that the agency profited from the California power crisis.

DWP profits were held to 15%, Freeman said then, but a later study found the utility averaged 56% more on sales than it cost to buy the power.

NARUC chief worries markets got bad rap

Don't dismiss that bad report card *Consumer Reports*' July issue gave competition (RT, 6/11).

It is "influencing the public view," NARUC President William Nugent told marketers at NEMA's meeting late last week, and it's "not taking much" to push a skeptical-at-best public and lawmakers to lose interest in competitive markets.

Public support nationwide for opening retail markets is "on the wane," Nugent noted.

The perception is deregulation was "pushed by big power sellers" and "the public is "recoiling from developments they don't understand — and [those they] do understand" such as market manipulation.

Nugent's day job is PUC commissioner in Maine where, he said, competition is doing just fine.

That's because Maine required utilities to divest their generation so the T&D companies would provide a "level playing field," a design feature Maine got right many commissioners have told Nugent.

The streamlined utilities offer billing services that "virtually every" marketer chose to use.

POLR services are bid out periodically with one-year arrangements for large C&Is and a three-year deal for residential and small C&Is because that end of the market "is not very competitive."

"Virtually 100%" of generation prices are market based and T&D rates are falling, Nugent boasted. Even as stranded costs are being paid off the share prices of Maine utilities have doubled since deregulation.

Maine switched load is declining — to 40% from a high of 47% earlier — because new POLR contracts bid on by 10-12 companies reduced rates. Thirteen marketers are active in the state, he said.

"Price counts," Nugent noted, but you can't always count on prices being lower.

And you shouldn't measure success by the number of residential switchers," he cautioned.

"No one is recouping costs from the tiny margins on residential users."

FERC's coming standard market design — "the big enchilada now" — is cause for optimism even if Congress demurs from legislative fixes.

NARUC is counseling FERC to go a little slower, urging flexibility in markets and gathering proof markets will work.

"A threshold issue for states will be how standardized should standardized markets be," he added.

States are very busy with telecom and water issues now and may need extra time to review FERC's work, he noted.

Commissions aren't in complete agreement on what they want to see but share some touchpoints.

Some object to single-rate transmission tariffs, while others will go along as long as native load is protected.

State regulators prefer long-term bilateral contracts for most of the load-serving entities' purchases.

And regional demand response is "very much a topic of concern," Nugent added.

PUCs aren't crazy about the way installed capacity markets are being handled now and Nugent hopes FERC will find a better "capacity mousetrap."

The eyes of the US are upon Texas

The heat's on Texas to prove retail markets can be done right and that puts the state's two-member PUC on the hot seat.

Wait a minute, protested Commissioner Brett Perlman, one of the two, at NEMA's conference Friday. "People want to give us a grade but we haven't taken the mid-term yet."

Perlman was a Gov Bush appointee who worked with former Texas commissioner and current FERC Chairman Pat Wood on deregulating energy markets before Wood moved onto the national stage.

The commissioner describes himself as a "retail provider evangelist" who considers the Texas wholesale market "old news," but still has a few concerns.

While Texas' capacity reserve is running 22-23% some plants the state is counting won't be built.

Texas may be glutted with

generators now but "what should the margin be," he asked, and how do you provide the "right incentives" to create marginal capacity?

Texas is lavishly supplied with generation with 45 new plants built since 1995 — about 15,000 mw — and another 17 worth 13,000 mw under construction now. Another 33 plants — 20,000 mw worth — are on the drawing boards.

The state's making sure that power can move around by being one of the few states actually "putting iron in the ground" building transmission, Perlman said.

The wholesale market in Texas, Perlman reminded the marketers, charges "shallow" generator connection fees, postage stamp rates and features a congestion management system with ERCOT as the "traffic controller."

Texas decided on centralized customer registration when it designed its retail market and that was "the right way to construct the model, Perlman said, even though switching delays have been a problem.

'Lovable' agency defends competition

The Federal Trade Commission is "a little agency," FTC Commissioner Mozelle Thompson told the NEMA marketers last week, "but everybody loves us."

Audible groans came from marketers eagerly awaiting news of FTC action on "do not call" lists — a subject Thompson refused to touch.

"Competition works — for consumers, businesses and America," Thompson vowed, even after California and Enron led people to question that "basic principle."

The FTC is the US "competition agency" on one hand, and on the other "the consumer protection guys."

Strong consumer protection gives consumers confidence in the market, Thompson noted, and deregulation has "great potential" to provide them choices at the best prices.

The agency is a "strong advocate" for reducing "choke points caused by market power and entrenchment," Thompson said, and is willing to "take action where we see anti-competitive behavior."

Thompson urged marketers to work with the FTC so it "knows what's going on."

"If you're really good at fraud or monopoly power consumers don't know what they're not getting," Thompson noted.

"Spread the word," he said.

"Consumers want to know that people in the market are willing to talk about good things and point out the bad."

The FTC, Thompson pointed out, doesn't consider itself a regulator but rather a law enforcement agency.

"We look after laws that support competition and punish fraud," Thompson explained, noting that FERC is actively soliciting FTC views on making markets work.

"You can't sit and be passive as an industry," Thompson cautioned. Talk to the FTC and other agencies to "make things happen."

"Fraud knows no boundaries," Thompson said, and "places the highest penalty on businesses doing the right thing."

Dynegy plan keeps utility; telecom is toast

Fitch Investors Service downgraded Dynegy's senior unsecured debt to junk status after reviewing Dynegy's plan to raise $2 billion in capital by the end of the year, citing concerns about the company's reduced flexibility and negative reaction to ongoing government probes.

Dynegy's plan avoided Standard & Poor's and Moody's downgrades and staved off a liquidity crunch.

The restructuring plan was put together with the expectation that one or more ratings agencies would downgrade them, company officials said in a conference call yesterday, but Dynegy would not be run "based on what they end up doing or what the other agencies do."

Dynegy will sell 50% stakes in Northern Natural Gas and Dynegy Storage in the UK, while "not sacrificing strategic control of these assets," and reduce its stock dividend to save $56 million, the company estimated.

Illinois Power will be a "key element" of Dynegy's comeback but its telecommunications assets will not, company officials said in a conference call yesterday.

Dynegy is taking a $450 million second quarter writedown for its telecom operation, roughly 10% of the company's equity base.

The restructuring is being done without the sale of stock but that could change, officials said.

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.

Restructuring Today (ISSN 1522-7324) is published 247 times a year on business days by US Publishing Co for ghi llc at 4418 MacArthur Blvd, 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. George Spencer, editor & publisher. Season Hawksley, marketing director.

www.restructuringtoday.com