restructuring
TODAY

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City Light's meters create havoc for many customers

Seattle City Light (SCL) has admitted that faulty meters were the cause of its underbilling Boeing, Nordstrom and Seattle City Hall by as much as $1.5 million.

Nordstrom helped discover the problem, the utility said, when it moved to a larger retail space and asked why its electricity bill seemed low.

"We worked hard to deal fairly with our customers and we want to have that kind of relationship with all our business partners," Nordstrom's Brooke White said. The meters used for C&I customers are complex, explained City Light's Bob Royer.

"Dammit, we found out about it and fixed the problem," Royer replied when asked to explain how the problem could have gone undetected for so long.

"These are big, complicated things and they were put in a long time ago," Royer said.

Last month, SCL admitted it had overbilled 78 customers, some by thousands of dollars, when a filter system used to detect abnormally high bills stopped working for two days.

SCL found that Nordstrom's meter was wired incorrectly and that it owed the utility $150,000.

SCL finished in December an audit of 74 of its largest C&I customers and discovered that Boeing owed $800,000 because it too had an improperly wired meter and had apparently been underbilled since 1989.

City Hall's meter was installed incorrectly in 1992, the utility found, so the city had been paying for only half the power the building actually used and owed about $580,000.

Boeing met with SCL to ask for data and now a joint test of the meters is scheduled for the next couple of weeks.

Cooper sees Enron rising from ashes: Why not call it phoenix? The Enron name has to go, says CEO Stephen Cooper. He likes Opco to stress the firm's options.

Kelliher may get Breathitt seat at FERC

The White House has changed its strategy and formally forwarded Joseph Kelliher's name to the Senate for the seat that will be vacated in June by Commissioner Linda Breathitt.

Kelliher was presumed to be the choice to fill the seat held by former Chairman Curtis Hébert, when President Bush signaled his intent to nominate the top DOE advisor last year.

But the position held by Hébert, who resigned in August, expires in June 2004 while Breathitt's seat expires next month and then again in 2007.

Rumors that Kelliher's name was being purposely held back to avoid unpleasant questions are untrue, the administration asserted.

Kelliher did not seek or receive an endorsement from Enron, the White House contended, and wants Congress to know he sought input from environmental and energy-efficiency groups while helping to write the Cheney energy policy.

An Energy & Natural Resources Committee hearing on the Kelliher nomination is not expected until late May or early June.

The Senate is controlled by Democrats who may or may not go along with the Bush appointment.

Germany toys with freedom for C&I gas buyers

German gas pipeline owners and industrial customers signed an agreement Friday aimed at bringing more competition to mainland Europe.

Germany imports 80% of its gas and about 750 firms sell it. The deal, in force for a year beginning Oct 1, replaces one rejected by Economics Minister Werner Mueller, who had threatened to appoint a state regulator for the gas industry.

Large industrial customers will avoid fixed fees and be able to negotiate directly with pipeline owners.

Smaller businesses and Germany's 44 million residential households will continue to pay a government price.

If the government approves the gas deal, it will be added to a similar agreement signed by the electric industry so that a draft energy law can be considered by the German Parliament.

America's report card

What does Malloy think about his creation?

Part two of two articles

We asked Ken Malloy some very hard questions -- some of them ones we've been asked by marketers.

Why, for example, would anyone take the risks of selling energy at retail when it costs X dollars to acquire a new account while retail prices are controlled in all markets except Texas and the Georgia gas market but wholesale prices are not (some wholesale prices are capped at $1,000)?

Malloy answered by describing his role over the last 25 years as a "policy wonk" trying to get markets open.

"I'm not a marketer."

In general, Malloy was quick to point to "how poorly most public policy makers understand what it takes to make a vibrant, robust market at wholesale or retail."

That's why his RED index (RT, Friday) was created to apply consistently to all markets internationally to point up those problems.

"You can see from the results that most of them receive failing grades."

Malloy cited the dreary aspect that only four states get passing grades and the grades are all in the 60s. None -- even Texas -- has gotten into the 70s.

The England/Wales market got an 83. He was quick to remind us that all of the UK retail price controls come off this year. He thinks that was in April.

The short answer to our question is that the RED index shows enormous impediments to creating vibrant markets, Malloy said.

He cited fixing the default price so low as to prevent competitors from coming into the market.

This year the Center for the Advancement of Energy Markets (CAEM) changed the weighting of default pricing criteria.

When does he think state regulators will stop using default pricing to kill markets?

Malloy finds many regulators oppose exposing residential customers to the vagaries of volatile pricing in markets that may not yet be mature enough to correct price spikes. His prediction:

Today's conditions "to percolate

along for another couple years with virtually nil levels of residential switching."

Ideally states will let C&I customers shop and allow that market to mature as with gas where large users and LDCs were the market without residentials.

The big C&I gas customers have resources the smaller ones don't. The gas market because of FERC jurisdiction opened nationally unlike the state situation in electricity.

He predicted a continuation of default pricing as a protection for residentials and that's going to slow down the transition from monopoly but as those C&I markets improve policymakers will gain increasing confidence to expose smaller customers.

Will Malloy do a similar report about retail gas markets?

It's in the works and may be done by midyear.

Telecom?

He was asked and would like to do it but isn't set up to do so now.

He was also asked to do the RED index by each utility rather than by state. That may be in the offing but not soon. It would be a good tool for marketers to use with regulators.

Does Malloy see any chance to get ERCOT out of the buyer-seller relationship?

At one level Malloy sees ERCOT as a body that favors competition and that it's trying its best.

Unlike with buying and selling of newsletter subscriptions -- where a third party isn't needed -- buyers and sellers in Texas need a grid to use and someone who runs that grid whose permission is needed, he replied.

"ERCOT can't get out of it," said Malloy. He prefers seeing ERCOT do the coordination compared with dealing with the various utilities.

The standardization movement should help with what we see as the switching problems.

States like to hang onto policy issues to put their own spin on them but every time "they differentiate themselves by only 10% ...

"If you have 10 states differentiating by 10% for the marketer it may be 100% differentiation and that's killing the marketers."

Malloy conceded the switching problems but "most people believe their [ERCOT's] heart is in the right place. They really want to make this work."

That's his finding after dealing with Tom Noel, the CEO.

You believe that all jurisdictions ultimately will open. Why is that?

When he started CAEM and a consultant before that he believed competitive energy markets were inevitable over the next decade.

"I no longer believe that. I acknowledge that this is tougher stuff at retail than I ever imagined...

"We didn't think that states would take so many varying routes. We didn't have a good feel for the technical issues that had to be dealt with to get residential customers switched.

"Part of the blame lies with advocates of competition not being enthusiastic about the positive results we saw with gas on the federal level thinking that it would be a relatively easy transition at the state level.

"That really hasn't been the case," Malloy observed.

Yet he remains confident that there's a certain inevitability but the time horizon has changed dramatically.

Malloy looks at the US and Canada as an area with a long future of economic success with a high standard of living.

Meanwhile the day-to-day world is getting more complex via digitalization. He used to work on his car when he was younger but now he doesn't know where the oil goes in or whether it has a head gasket.

IT makes available to consumers a horizon unimaginable 10 years ago making a time crunch brought on by so many more options.

Thus today's consumer doesn't want to have to deal with picking from "10 different flowing content servers coming into their home or business.

"They want to be able to outsource many activities to a supplier who deals with them in a more holistic way than today's monopoly utility -- sewer, water, cable, electric, gas, telecom and all the appliances associated with that."

Malloy forecasts a growing consumer demand for more control over services they have had no say about in the past.

Overall, his faith that the public will get more choice is based on his basic fundamental observation "that markets work, government doesn't."

He likened the two philosophies to the conflict between the Soviet centralized decision making and US embracing of capitalism.

Is government more likely to serve the public's needs better than markets, he asks.

QUOTE OF THE DAY: The American problem today is not that there are stupid capitalists out there who don't know what people want who don't deliver the services. Nothing could be further from the truth. There are lots of people out there who -- in a heart beat -- would jump at the opportunity to get into those [energy] markets if they saw effective markets.

CAEM's Ken Malloy in an interview last week.

He's appalled the score CAEM's RED index shows for our country.

The index's most compelling point is that the average US state rated for implementation of markets gets 17 out of a possible 100.

"We simply have not given markets a chance to work.

"This is not a market failure. It's a government failure," he stressed.

"Not only do monopolies fail to deliver services but in the transition governments have sufficiently clogged up the ability to make the transition to markets -- frankly we've made a mess of it."

The bottom line? The American report card, the index, shows that "nobody other than England and Wales has done an effective job of putting together a market other than the four states getting a barely passing grade," Malloy summed up.

Malloy's personal question is -- at 50 will he live to see it? The way technology is unfolding he could be surprised, he added, but today he's predicting something more like 20 years.

Thinking about the England/ Wales market, why did he trim some points off for default supplier policy?

They have something like the Texas model in that the government took all customers away from the traditional utility so that the utility is simply a wires company.

Texas gave the customers to an affiliate of the utility while in Britain customers were simply given to an array of marketers who may or may not be affiliated with the wires company.

But the retailers served with price caps.

The good news is that those caps end about now.

Malloy prefers the Georgia gas model where all customers have to pick a supplier or get assigned one. He sees that way as giving each marketer a better chance.

Just imagine the advantage the utility affiliates get, said Malloy -- considering inertia -- in getting masses of customers compared with the market entrants that have to gain customers one at a time under the UK/Texas method.

One potential flaw in the index,

Malloy conceded, is that a state could theoretically do so many things to promote competition as to win a 95 score but do one thing that kills the market.

How did New Jersey ever get a 50, we asked.

"In the land of the blind, the one-eyed man is king," he replied.

Remember, Malloy responded, that 50 is not a passing grade. It got a higher grade than Alabama that got a zero. The 50 merely means that it has taken a variety of steps in a positive direction to open retail markets.

What do we think of the RED index?

We commend Malloy for refining the evaluations. As America's retail energy report card, it shows decisively that -- as with civil rights -- if you want nothing to happen, let the states do it.

The more we see of corruption at the state level the more we respect the federal government and the less we trust state governments to do anything.

Those who favor monopoly are easily able to get what they want in most states but when you get to the federal level where the action is more visible, more stakeholders balance the accomplishments of other stakeholders, you're less likely to see the kind of monkey business that's possible in state capitals.

Remember the Abscam set up.

Federal police set up some lawmakers in a house near our office and destroyed the ones corrupt enough to bite.

It sent an electric message to Congress.

If each state would now do the same, we would regain our lost faith in "let the states do it."

One reason Texas has the best American retail market is the strong message PUC Chairman Pat Wood sent to Central & South West.

Chartwell cites ERCOT switching

Competitors in the Texas retail market have spent millions of dollars on new customer care information systems and customer management software but glitches in the system responsible for switching at ERCOT threatens their bottom line, Chartwell reports.

ERCOT acts as the central clearinghouse for customer transactions and the error rate on customer switches is "too high," ERCOT CEO Tom Noel agrees.

While it may take the rest of the year to solve the problem, and much of the responsibility is ERCOT's, Noel says, suppliers and customers are "at least partially to blame."

Flexible customer care software is offsetting trouble caused by billing and transaction issues, Chartwell finds, but energy companies that spent big money on new technology want large customer volumes to get their investment back.

The entrance of companies with deep pockets like Centrica, Chartwell says, is seen by many competitors as a means of invigorating the market.

Chartwell's report on Texas is the first in its research series on customer information systems, billing and customer contact activity in the North American energy industry.

DWR settles with CalPeak, the IPP

The California DWR and CalPeak Power rewrote seven contracts the IPP had with the state for peak power, saving the state $71 million over 10 years.

The savings come from eliminating one of seven plants (Mission Bay), postponing another by a year and cutting capacity payments on each of six remaining plants by $750,000 a year.

The state boasted it won improved flexibility and efficiency from better dispatch rights to match power buying with loads.

The accord moves the Midway project from transmission-constrained Kern County to generation-constrained northern California.

A new site hasn't been picked.

The contract originally called for CalPeak to build seven 50-mw peakers and was worth $403 million over its 10-year life.

Three of the plants are operating, two will come on line next month and Midway will go online next June.

Georgia market may survive new state law

The two biggest Georgia gas marketers reported healthy profits for the first three months of the year.

AGL Resources attributed its $5.2 million increase in pretax earnings to a 50% stake in Georgia Natural Gas (GNG) while SCANA Energy reported earnings of $13 million in first quarter net income.

GNG prices are unchanged this month at 59.9¢/therm if locked in for one year and 65.9¢ for a monthly contract.

SCANA's prices remained at 69.9¢ for a one-year or month-to-month contract.

Number four NewPower is emphasizing variable rates, said the company's Gael Doar, with 59.9¢, up from 57.9¢ last month.

The company's fixed price is 67.9¢ for a year.

NewPower is having difficulties locking in long-term energy supplies since the Enron collapse but Doar said it has enough cash to operate through June.

Number three Shell Energy is still calculating its new rates and retooling its billing format to meet the requirements of the state's new Natural Gas Consumers' Relief Act signed into law by Gov Roy Barnes two weeks ago.

Most of the provisions of the law will not take effect until Sept 1, the deadline for the PSC to write new rules but a number of them are already being implemented.

Late fees are now limited by statute to $10 or 1.5% of past-due balances, whichever is greater.

Security deposits are limited to $150 and price hikes can't be applied retroactively to gas already used.

The PSC is expected to write brilliantly rules for simplification of monthly bills in time for the winter heating season.

Enron cites credit in cutting off SPR: Enron told Sierra Pacific Resources (SPR) it will halt power deliveries to affiliate Nevada Power (NP) tomorrow because of changes in SPR's credit rating. The utility is eager to replace maybe 10% of the needs for the rest of the year. SPR still is liable for the $305 million cost of the contracts but has asked FERC for an ALJ to take over settlement talks. The utility has asked suppliers for payment extensions after the Nevada PUC found $437 million not prudently bought and refused to allow pass along to retail customers.

NewPower staying power questioned in Texas market

The Texas Office of Public Utility Counsel and four consumers groups petitioned the PUC late last week to probe NewPower's finances and suspend its retail license in case of doubts of its viability.

The group includes Consumers Union, Texas Ratepayers' Organization to Save Energy, Texas Legal Services Center and Public Citizen-Texas.

The advocates fear NewPower's customers may be dumped back onto default service and that might cost those customers 30% more at the height of the summer.

Among the groups' concerns are that NewPower's supply is not fully hedged, that it recorded losses and that its acquisition by Centrica was not consummated, leaving NewPower on shaky financial ground.

NewPower vehemently denies the groups' assertion that the firm admitted it is "not likely to continue operations through the second quarter of this year."

The groups did not "attempt to verify their facts with the company" and the petition is full of "misinterpretations, misunderstandings and erroneous conclusions," NewPower responded.

NewPower isn't signing new Texas customers but those it has are not at risk.

"I emphatically reject the notion that we are not capable of continuing to reliably serve our customers," said Eugene Lockhart, NewPower's CEO.

The company has "sufficient financial resources to operate through the second quarter and into the third quarter of 2002."

"NewPower fully intends to meet all of its obligations to its customers."

Texas suppliers aren't required to file periodic reports once they are certified, but the PUC can require suppliers to supply financial information and it's watching NewPower.

The PUC financial review division has that responsibility.

PUC rules require 45 days notice if a supplier is going to pull out of the market so it can help find a supplier to pick up the business, the PUC's Terry Hadley told RT, if NewPower can't find a buyer for its substantial Texas customer list.

NewPower is weighing sale of assets.

Its customer contracts in 10 states and 25 markets are valuable assets. The firm could cut the number of markets as part of its strategy.

Besides, the PUC is "comfortable" that a switch to a new supplier could happen without customers noticing anything different other than that a new company was billing them, Hadley noted.

... if ERCOT can get them switched skillfully. Abandoned customers might never need to be parked on a default service at its higher rates, state leaders suspect.

The advocacy people want NewPower to inform customers of "material changes" in its finances, and allow customers to cancel their contracts without penalty.

The advocates tried to scuttle opening up of the retail market on the eve of its opening.

A call to the Office of Public Utility Counsel was not returned by deadline.

3 stories in 0.8 minutes:

NJ to get 12% of government's need from green power: Green Mountain and New Jersey have signed a contract to provide electricity for 196 state facilities, the largest of its kind in the nation, the New Jersey Board of Public Utilities said Friday. Contract terms call for Green Mountain to sell 113 million kwh, a blend of wind, water, biomass and solar, over 15 months. New Jersey will be getting 12% of its power from renewables compared with 6% in Maryland, 5% in Pennsylvania and 2% in Tennessee, the National Renewable Energy Laboratory reported.

Reliant seeks PTB price hike: Reliant Retail Services asked the Texas PUC last week for permission to raise its price to beat (PTB), citing increases in gas prices as the reason. With the requested fuel adjustment, a residential customer using 1,000 kwh a month would pay 9.12¢/kwh up from today's 8.62¢. Since Reliant's PTB was set last year, the fuel price has risen 20% to $3.73/mmbtu last month, the utility explained. Even at the higher level, said Reliant, its price would be 12% below the December level. TXU has asked the PUC to boost its PTB 5% from 8.62¢ now.

Wind farm dedicated: The Desert Sky Wind Farm, dedicated Friday, is located near Iraan in Pecos County about 86 miles south of Midland and 266 miles west of San Antonio. American Electric Power bought it from Enron Wind in December, including its 107 1.5-mw turbines. AEP's City Public Service is buying all the power under a long-term contract.

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