restructuring **TODAY**

Wednesday May 8 2002

4 stories in 1 minute:

Harrah's hired Mobius Risk Group to show how to cut energy use at 25 casinos that paid $50 million for gas and power last year.

Time Warner leaves ConEd: ECONnergy Energy of Spring Valley, NY, is a major player in New York's competitive market. It signed Time Warner Cable to supply natural gas and 44 million kwh of electricity bought earlier from Consolidated Edison to power 3,700 transformers used to boost cable signals and 28 technical facilities.

PPL gets ready for time-of-day pricing: PPL Electric Utilities is replacing all meters with automated meter reading equipment for $160 million. Most of its 1.3 million customers get a plain Jane version that allows meters to be read through substations. About 6,000 businesses will get two-way meters that send and get data via wireless telephone links. Some of the company's 175 meter readers will be trained to install the meters.

Centrica closes on big Alberta deal: Centrica North America closed on its buying of Enbridge's retail energy services business in Alberta for about US $650 million, it said yesterday. Centrica is the robust retail marketing firm that grew in the UK's competitive market and has become the leading competitive retailer in the New World. It's Direct Energy Marketing is a leading electricity retailer in Ontario, having signed up some 600,000 customers in advance of the May 1 Ontario retail starting date. Centrica, with 1.3 million gas customers in the US and Canada and 600,000 electricity customers in Ontario, gets Enbridge energy products and services businesses, including water heater rentals, operations in Philadelphia and more than 1,400 employees.

FERC Enron memos create industry pandemonium

Shares of IPPs fell sharply yesterday as revelations about Enron's alleged manipulation of western power markets prompted a call for a federal probe and sent another round of shock waves through the electric industry.

Are the Enron practices in the FERC memos widespread?

We asked Craig Goodman, president of NEMA. California had set up a system "that almost forced marketers to trade out of state first," he observed.

But he knows of no one beyond Enron doing the things in the FERC memos. Weren't Enron's practices a variation on standard arbitrage, we asked.

"Trillions of kilowatts are traded every day while only billions are delivered," he replied. "That's how the market works as traders take risk on behalf of consumers."

As for any strategy to manipulate prices, Goodman reports that all NEMA "members would oppose such schemes."

Sen Dianne Feinstein, D-Calif, asked Attorney General John Ashcroft to find out whether Enron and other energy companies violated criminal fraud statutes while trading and determine whether UBS Warburg, buyer of Enron's trading operation is continuing "the same manipulative trading strategies."

Feinstein said Enron was manipulating prices in the West and engaged in a number of "calculated strategies" to increase prices or receive payment for energy not delivered. "That's outright fraud," she wrote

If Arthur Anderson can be indicted by the Justice Department, Feinstein contended, Enron is culpable "for creating schemes to perpetuate acts of fraud on consumers under the guise of corporate strategies." FERC ratcheted up pressure on power sellers yesterday posting on its website a blanket request that all energy traders involved in the California market preserve documents detailing trading strategies that are discussed in the Enron memos.

"Disclosure really is a great disinfectant. It lets people on the outside who might have more information feel like they can come forward and have that information treated credibly," FERC Chairman Pat Wood told reporters. The materials traders must store for future FERC inspection include " correspondence or memoranda discussing trading strategies or correspondence between companies with respect to transactions that are part of such trading strategies."

NH PUC prevents retail shopping for 4 more years

PUC cites lack of marketers without taking credit

New Hampshire regulators have cleverly rigged the market so as to scare off suppliers (except for big accounts).

Now it's closed off most of the retail market for another four years since there are "no viable competitive suppliers" for New Hampshire residentials and small businesses.

Mighty slick and they'll probably get away with it. Their n names are Thomas Getz, the chair, aided by Commissioner Susan Geiger and Commissioner Nancy Brockway.

Getz and Brockway are Democrats and Geiger is an independent.

Specifically the PUC extended Granite State Electric's transition service at a fixed price for another four years so the National Grid USA affiliate's favored rate doesn't expire next month.

It's the amount paid by those who don't shop.

New Hampshire is open in a let's-pretend mode and won a 40 rating from the CAEM index (RT, 5/6) out of 100.

Default power comes from Constellation Power Source, the Baltimore Gas & Electric sister firm.

Still unresolved is the price Constellation Power Source will be permitted to charge for commercial and residential users.

The PUC wants a 7% rate cut with commercial users paying slightly more than residentials. Most likely the PUC and Constellation will compromise on the amount, the firm tells us.

Regulators thought they had two options — the extension or assigning some customers to Constellation — thus making it the only supplier in the residential market — and moving the remainder to a Granite State default service as the utility's restructuring settlement had decreed.

Most commentors — including the Business & Industry Assn, marketer Freedom Energy, the Office of Consumer Advocate and the PUC staff — preferred the extension though the PUC staff and the governor's office of Energy & Community Services questioned why the market death knell had to be so long.

New Hampshire's retail market has been slow to develop and only C&I users have electric suppliers to choose among.

Registered marketers AES NewEnergy, Sprague Energy and TransCanada Power Marketing aren't offering residential service under the rigged market paradigm.

Buying group Competitive Energy Services serves C&I customers only.

Freedom Energy Buyers Group is registered in New Hampshire and has an alliance with TransCanada Power Marketing but it told the PUC that its hard to compete with a default service. Marketers are "basically purchasing the same electricity as the wholesaler," Freedom argued, "but they incur billing costs, enrollment costs and credit risk concerns."

The four year trick could have "serious ramifications for competition," Freedom warned.

The extension locks in customers and a "competitive supplier cannot compete."

As long as the "transition service" is there, Freedom added, suppliers would hesitate to enter the market because they would have to shoulder uncertainties of the market, overhead costs and other risk factors "Constellation does not need to consider."

Some believe four year rigging moves Granite State closer to the time when other utilities' transition services end — a timing that might attract a few marketers.

Granite State was the first of New Hampshire's IOUs to "open" its market.

Extend retail price freeze movement begins in Ill

It was inevitable that the monopoly movement would seek around the nation to extend retail price caps that have effectively discouraged competition.

The effort in Illinois, following on the New Hampshire example (RT, today), may be in trouble.

Commonwealth Edison (Exelon) would gain up to $2 billion a year and Illinois Power (Dynegy) more than $350 million a year if Illinois state lawmakers extended price caps for two years, the staff of the Illinois Commerce Commission (ICC) reports.

The estimates are contained in a report prepared by ICC staff for lawmakers who are considering a law to extend the freeze on retail rates through 2006.

Competition opponents expected greater success with law makers than with the ICC which is more highly respected.

The freeze is supported by consumer advocates.

Commonwealth Edison's gaining of the support of the Citizens Utility Board, played a key role in ComEd's getting the present flawed system adopted originally.

CUB can advocate extending the rigged market (prices fixed by law) on the grounds that it keeps prices low.

The fact that it keeps out alternate suppliers doesn't matter to CUB, a group for whom competition has little magic.

ComEd's rates were cut by 20% when Illinois passed its deregulation law in 1997 but, the staff reported, the utility would be allowed to charge customers well above its cost to buy wholesale power. The ComEd rate covering energy costs would be frozen, under terms of the extension, at an average of 5.35¢/kwh, compared with the wholesale price of 3-4¢ projected by ICC staff.

The resulting margin, the staff concluded, would give ComEd a profit of $1 billion to maybe $2 billion a year.

A cost-based approach in the report would reduce the profit to between $1 billion and $1.4 billion.

"That is pure speculation on their part and we totally disagree with their calculations," said Bob Berdelle, ComEd CFO.

ComEd doesn't have its own projections, Berdelle contended, but is preparing to take on the risk of buying adequate supply for its 3.4 million customers.

Illinois Power (Dynegy) declined to confirm ICC staff forecasts or provide its own but points to the added risk of supplying customers under an extended rate freeze.

Illinois Power will gain $121 million to $362 million per year with rates frozen at an average of nearly 5¢, the staff predicted.

A cost-based approach, the staff estimated, will give Illinois Power an even wider margin of between $325 million and $414 million a year.

AmerenCIPS and Central Illinois Light (AES) could see wholesale costs at or above their frozen rates in 2005 and 2006, the staff said.

The Illinois House passed the bill to extend the rate freeze by a 112-2 margin last Thursday and the proposal could come up for debate in the Senate next week.

NEMA teams address risk, accounting, financial disclosure

To build back US public confidence in power markets

Going on behind the scenes at the National Energy Marketers Assn (NEMA) is a major effort to organize the industry's creation of mechanisms to deal with the fallout from the Enron collapse (RT, 5/3).

"It's absolutely critical that our nation's wholesale energy markets are stable, reliable, transparent and financially credible," said NEMA President Craig Goodman.

NEMA seems to be well on its way to doing something about it.

Goodman finds today's accounting rules "do not square with a electricity market that's years away from the liquidity of other markets."

NEMA leaders met this week for six hours to find a credible, industry-wide mechanism to deal with risk, financial disclosure and mark-to-market accounting.

"We have formed four teams of experts who are drafting ideas for the start of an industry-wide consensus."

The teams will coordinate with industry and government to develop national guidelines.

- One group is to address management of credit and market risks -- with participation of ICF, KWI (the global, risk software developer and Caminus, a risk software developer.
- Deloitte Touche will address disclosure and reporting what's needed to protect investors and Wall Street guided by as-yet unnamed generators and power traders.
- One task force is to develop auditing and compliance standards and proper measurements of capital adequacy to be in the wholesale energy business. Deloitte Touche's Bob Young and Kim Detiveaux are guiding this one.
- A polling system committee is charged with finding a reliable system of determining prices for mark-to-market accounting. Cantor Fitzgerald and TradeSpark joined here by Prebon Energy, the brokerage firm, and Amaret.

NEMA seems to be on the way to developing a market as reliable as the one for gold.

Goodman envisions the creating of

a superhighway for electricity and related services in today's atmosphere "when we don't even know where the off-ramps are and are relying on farm-to-market roads."

Reaching out to telecom, digital communications: NEMA is about to reach out to telecom and digital communications via a task force. Detail will be put out later. NEMA leadership sees the convergence of energy and communications and will behave accordingly.

8% of gas volumes sold in residential markets outside LDCs

AGA cites lack of marketers for slow gas competition

Why is the residential gas market in the US increasingly less competitive?

In AGA's own words:

"To date, about one in every five households with natural gas service has or will soon have a customer choice option," AGA reported in its annual report on the blossoming forth of retail competition.

About 8% of the volumes were bought in choice programs, AGA added. Why not more?

- Low participation is normal in early years, AGA quoted from the National Regulatory Research Institute.
- "Marketer interest in serving the residential market has declined recently."
- "Most customers are fully satisfied with the service and the price offered by the local gas utility," AGA assured the public.

The distributors trade group added that competition is more attractive to large gas users since a small discount is more valuable over a large volume of gas sold.

The annual report is "misleading," said Ken Malloy, founder of the Center for the Advancement of Energy Markets (CAEM).

"It's like saying everyone could buy a Mercedes if they only had the money. It's distribution company propaganda."

Malloy has in the works a state-by-state evaluation of competitive gas markets similar to the one he released Friday (RT, 5/3 & 5/6).

AGA's annual study on the growth of customer choice nationally says that 83% of all gas consumed in the US could be purchased from sources other than the local distribution company and that 63% of all gas consumed could have been bought under a customer-choice program.

The report focuses on large retail buyers who have been able to pick their suppliers since the mid-1980s.

AGA claims the number of customers choosing alternate suppliers increased 32% between 1999 and 2000 with 800,000 shoppers in the residential sector — 35%.

The underlying theme that competition exists and that it is expanding is valid, agreed Malloy.

Certainly, the gas sector is more competitive than the electric industry and more gas customers have exercised their option to switch.

The sum value of that competition is an average savings since 1985 of $600 billion on the aggregate, Malloy says, or $6,000/customer.

The driver in opening up gas markets has been a shift in federal policy, he finds, and not initiatives undertaken by the gas industry.

Regulations that forced open access to pipelines and wellhead decontrol deserve most of the credit.

"If I predict that the sun will come up tomorrow and it does, do I deserve credit?"

If gas companies want to force markets open, then they should pursue policy changes at the state level, Malloy suggested.

Malloy predicted residential and small commercial operations will pay less and get better service in a competitive market.

Other than in Georgia, effectively that hasn't happened on any grand scale. Fewer than 3% of California's residents have switched gas companies while no Texas residents have.

Some of the key reasons for the inertia at the small customer level, he adds, are:

- Affiliates of incumbent utilities have too many advantages — including name identification and deeper pockets;
- Lack of standardized policies that make it expensive to operate and,
- Use of "default pricing" and other devices to keep marketers from making any money.

Georgia is an example of a state that deregulated correctly, he says, noting that most residents have exercised choice. AGA agrees that changes to federal policies have been the catalyst behind gas competition and that marketers have had a tough time competing at the residential level.

"Our members have not taken a position to go out and promote choice," says Bruce McDowell, AGA director of policy analysis. "Some of our members have been more aggressive in pursuing it," but the vast majority of consumers can chose, he added.

McDowell predicts a more effective competition when gas, electric, telephone and water can be bundled together and sold as one package.

Malloy agrees:

"Marketers have to be able to sell large, diverse services — a move that will have to take root at the state level."

Best guess as to when that will happen?

At least five-10 years from now, Malloy replied, when consumers drive the trend and not entrenched incumbents.

The role of smoke in Gov Davis' gun theory?

Tie it to Enron's friend at FERC and White House

California Gov Gray Davis, Feinstein's friend and co-worker, called the Enron lawyer memos another "smoking gun."

He likes smoking gun because he thinks it makes FERC look bad since he's located so many nebulous smoke sources he chooses to call smoking guns and yet FERC finds nothing -- in his view.

Davis described yesterday the "smoking guns" as personal vindication "for his long-held position that electricity spikes during the energy crisis resulted from market manipulation by energy companies."

To the extent that Enron as it was known is dead, it's a great whipping boy since everyone repudiate evils of the system he claims Enron has created.

His aides describe Davis as the leading Enron fighter.

Enron hasn't been fighting back much.

"Enron was... making serious, fraudulent efforts to increase prices and create shortages in California which may rise to criminal activity," Davis said.

"The memos show that Enron, the 'mother ship' of the 1996 deregulation in California, never intended to provide lower-priced power for consumers.

"It is very clear that Enron attempted to take advantage of the rules, drive up prices in California, create artificial shortages, cause blackouts and make a killing all at the same time," he said.

"Clearly Enron knew what it was doing from the very beginning. They wanted to bilk us for every dollar they could and that is exactly what they did...

"Here is what we intend to do," Davis quoted an imaginary Enron official.

"`We are going to manipulate the system. We're going to make a killing, drive up our stock prices,`" Davis quoted.

"These memos are a smoking gun that indicates very clearly the company intended to defraud California, drive up electricity prices 400% [a new number], create shortages and potential blackouts."

Davis is considered likely to be reelected and thus will be a leading candidate to run this country considering how closely divided the leading parties are. It could happen.

He needs to be watched carefully because when he sees an opportunity, he snaps it up.

Like this:

Davis decided to go around through Pat Wood at FERC to get at his likely presidential opponent.

Davis wrote Wood yesterday restating his position that California was taken advantage of by Enron and other energy traders during the state's energy crisis.

FERC's document release "confirms what California [Davis] has been saying for well over a year now -- our markets have been manipulated.

"These memos amount to a confession by Enron of its efforts to defraud California consumers. They may involve criminal violations as well.

"Through its greed and possibly illegal manipulation, Enron did incalculable damage to California's economy -- and thereby to the national economy."

Maybe the world economy too but he's not running for president of the world.

Remember -- impartial surveys show that two-thirds of the California public consider the greed of Houston people to be the basic cause of the Golden State's energy crisis.

You know who taught them that lesson.

He's very effective with certain large groups of people and needs to be watched. Has FERC released all the dirt?

"In the face of these revelations, I also call on the commission to release all other materials in its possession relating to Enron's role in manipulating the energy market in California and the West," Davis urged.

He means "any letters, emails, memoranda and other communications either way between elected government officials and Enron from 1996 when California's electricity deregulation law was passed, through 2001."

It was as if the FERC memos are the main route for him to the White House.

Once wound up, Davis said of the additional FERC records:

"This must not stop there."

• The memos say that "although Enron may have been the first to use this strategy, others have picked up on it too... Traders claim that 'everybody does this.'

• "It is past time for FERC to investigate the extent to which others ... engaged in the manipulative practices described in Enron's confession."

• Davis' FERC criticism is a touch oblique. "California has previously submitted material to FERC identifying others who manipulated the market... [but] California's ISO rules have failed to stop this kind of manipulation. When our ISO proposed tougher rules this year -- indeed rules such as those which FERC has permitted eastern ISOs to use -- FERC rejected those proposals. FERC must permit our ISO to have stronger rules."

Texas sage to weigh price-to-beat level

A Texas ALJ is set to hear arguments tomorrow on requests from the Office of Public Utility Counsel (OPUC) and consumer groups that TXU's request for a price-to-beat (PTB) rate hike last month be denied.

A similar challenge to Reliant's request is expected soon (RT, 4/30).

"We felt from the beginning that the price to beat was set too high," said Clarence Johnson OPUC director of regulatory analysis.

The PUC set the PTB using last fall's average gas price of $3.11/ mmbtu.

Prices averaged $3.64 over a 10-day period early last month, TXU estimated, while Reliant's found $3.73 over 10 days later in April.

Gas was selling at $2.60 mcf when the PUC set the PTB Dec 7. The average TXU customer saw a 3.6% increase in electric prices when the retail market opened Jan 1, Johnson claimed.

"It's kind of a shell game. We cut the base rate by 6% but the fuel factor is high," Johnson explained.

"That issue was explored thoroughly before prices were set in December," replied Reliant's Pat Hammond.

Calif to spend $43 million to save in summer

California unveiled its $43 million energy conservation media effort, reviving the "Flex Your Power" campaign it used so successfully last year.

A new rebate program with 1,100 retailers promoting energy-efficient lighting, appliances and equipment touts that "A Watt Saved is a Rebate Earned," "Your Home's Summer Forecast: Lows in the $20s, Highs in the $400s. Rebates, that is" and other slogans.

The state is targeting C&I users — responsible for 57% of peak summer demand — with a "nega-watt" demand response program.

Agricultural users can join the Demand Reserves Program and are getting energy-efficient pumps funded by Senate Bill 5X.

The governor's office boasted a permanent energy reduction of 1,200 mw at peak from lighting, appliance and equipment installed since January of last year.

Restructuring Today (ISSN 1522-7324) is published 247 times a year on business days by US Publishing Co for **ghi llc** at 4418 MacArthur Boulevard, 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.

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