

# Restructuring Today



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## CAEM boosts default service importance

Default service for those who can't or won't choose or are dumped by their supplier is "one of the key issues" in whether a restructuring plan works or doesn't, CAEM comments in its 2003 RED Index.

It's so important — the wrong plan can give customers "inappropriate incentives" to shop or not — that CAEM gave it more weight in calculating this year's index.

It's less important who the default supplier is than what "risks, inefficiencies or non-competitive elements" are built into default policy, CAEM noted.

"Price caps are the major factor contributing to risks and inefficiencies where the utility or an independent energy provider" is the POLR, CAEM said.

CAEM counts nine types of default service models:

- Georgia opened its gas market in 1999 without a POLR. Customers who didn't choose a supplier were assigned to marketers based on their share of the market, called competitive assignment. The PSC later set up a POLR after consumer complaints of billing problems and marketer bankruptcies — choosing one of the competitive marketers as the POLR

(SCANA).

- The UK and Texas used the monopoly assignment model where all customers are assigned to a retailer required to offer service during the transition period at a regulated rate.

- New Jersey, Maine and Pennsylvania have used a bidding approach where competitive marketers compete to provide default service to some or all of a utility's customers as a group.

- Pennsylvania relies on a pricing "incentive" — a shopping credit set by the PUC based on stranded cost recovery. Customers have a right to continue to get supplies from the utility at a rate regulated by the PUC.

- The most dominant default supply model for gas is the competitively priced distribution default rate where the default supplier buys gas in the wholesale market and passes those costs directly to customers. The model varies state-to-state depending on how often the rate is set and whether the utility gets to true up over- or under-recovery of costs after the fact.

- Some states have set different default policies for different classes of customers — the "let the big dogs eat

first" policy. All states allow their largest gas customers to shop, CAEM noted, even where mass-market customers don't have choice. Oregon has followed this policy for electric customers.

- Most states allow utilities to offer default service under the old regulated rate based on cost of service, usually with a discount during the transition period, a discount that works against developing a market but makes the program attractive to politicians whose votes are needed for enactment.

California assured wholesale/retail asymmetry in its default service by requiring utilities to buy all their power in the spot wholesale market while selling at capped retail rates.

- The final model is setting price caps such as FERC's \$1,000 in some markets as a circuit breaker thought to be high enough but that "do not appear to terribly distort markets," CAEM noted.

Ontario followed this model when it set a US 2.9¢/kwh cap on retail rates — so low they "will be constraining even under non-emergency conditions," CAEM said.

CAEM's Default Provider Forum met in January and is studying how each model works during and after market transition periods.

## Retreat from competition gets CAEM numbers

The UK's competitive energy market continues to lead the world by a wide margin in the Center for the Advancement of Energy Markets (CAEM) 2003 report card of retail competition ([www.caem.org](http://www.caem.org)).

Texas, at number three in the world, leads US states followed closely by Pennsylvania.

CAEM's RED (retail energy development) Index assigns values to various attributes — such as regulatory framework, generation market characteristics, default service structure and percentage of customers allowed to choose — and ranks states and countries on a scale of 100 as totally open and ideally competitive.

The index assigns only five points out of 100 to the number of customers switching thus allowing Virginia with virtually no shopping to rank above Ohio where shopping in some markets exceeds 20%.

Few states and countries changed position since their 2002 rankings except Ontario whose retreat to a fixed and capped retail rate last fall dropped its score from 45 in the September RED Index update to 33, making it 19th in the world.

Arkansas and Arizona dropped 13 points after both retreated from deregulation. Arkansas passed legislation throwing out restructuring and Arizona ruled that utilities didn't have to sell their generation.

Oregon lost 8 points because virtually no residential customers

### Eleven Top Jurisdictions (score = 50) in 2003

Country, Province, State or Territory	RED Index Score	World Rank
England, United Kingdom	88	1
New Zealand	75	2
Texas, USA	69	3
Pennsylvania, USA	67	4
Maine, USA	64	5
Alberta, Canada	61	6
New York, USA	60	7
District of Columbia, USA	54	8
Michigan, USA	52	9
Maryland, USA	52	9
Victoria, Australia	50	11
New Jersey, USA	50	11

## 4 stories in 1 minute:

### In Texas Cirro signs

**with Coral Power:** Nothing like having Royal Dutch Shell behind you in today's market. Tim Rogers is CEO of Cirro Energy, a Texas retailer, who cited Coral Power's "strong credit rating and the high level of financial stability that's needed in today's volatile energy market" in announcing his deal to buy most of its power from Shell's Coral over the next two years. Cirro operates from Plano, a Dallas suburb, going after residential users who use lots of power and small commercial buyers. Cirro charges 8.5¢ in TXUland and 9.2¢ in Reliant's footprint. It's posting 9.1¢ in Central Power & Light's area. Initially it bought from Aquila.

### Dynegy sells telecom

Dynegy will sell its North American telecom operations to 360Networks. The deal, expected to close next month, includes Dynegy assets of 16,000 route miles with access points in 44 US cities.

### ...spending \$20 million NY ISO to have first market

**ready for SMD:** The New York ISO picked ABB to install its SCADA/EMS system and enhance the market operation system to make the ISO the first energy market to meet FERC's SMD. The \$20 million does not include hardware. It does include enhancements to the Security Constrained Unit Commitment (SCUC) algorithm at the heart of the ABB market operation system. Full implementation is set for next April.

### PPL must-run units

**must stop, firm says:** PPL Energy Plus will seek approval to deactivate four of five units at its 253-mw power plant in shortage-plagued southern Connecticut for up to four years if it doesn't get approval for an agreement with ISO New England at a price that covers its costs. The units are needed, the ISO maintained, to keep the lights on in power-deficient southwest Connecticut. PPL faces a penalty if it fails to provide at least 97% of the electricity requested by the grid operator.

may choose and none have. Instead mass-market customers have choices of environmental and time-of-use rates through their utilities.

Oregon C&I customers technically are allowed to choose but were given only two days in February to find another supplier and that was deemed "zero" by CAEM.

It's a pretty dumb class where scores

of more than 50 put a state in the top 10 worldwide.

The UK's score rose 5 points to 88 prompted by the lifting of caps on default service last May, while second-ranked New Zealand stayed at 75 points.

Virginia was the only state whose score rose — by 8 points — as more residents became eligible to choose and utilities functionally separated.

## Ontario IMO thinks half of market can shop

Half of Ontario's market still has incentives to respond to price movements, the Ontario IMO Market Surveillance Panel noted in its September-January report.

The Ontario retail rate freeze at C4.3¢/kwh for small customers in November and its extension to larger customers this month reduced the number of price-responsive customers.

Eighteen of the largest industrial wholesale customers paid about C\$8/mwh less on average by responding to wholesale market conditions. Their behavior "benefits all load in the market by reducing demand (both peak and overall) and contributing to lower prices," the MSP concluded.

## RI sets carrot-stick gas-buying plan

The Rhode Island PUC yesterday implemented a novel plan that gives financial rewards to New England Gas Co for making good gas-shopping decisions.

If it buys wisely the firm may get up to \$1 million annually if its discretionary gas buying costs less than the fixed gas purchases it has to make under PUC rules.

The carrot-and-stick plan carries penalties — up to \$500,000 — if discretionary buying costs more than

fixed-price purchases made in advance.

Any reward or penalty could have a significant impact on the company's Rhode Island operation, which typically has a profit of \$10 million to \$12 million.

An attorney for the PUC said the plan was needed to prompt the gas company to take full advantage of price dips in the market.

New England Gas is a division of Southern Union in Wilkes-Barre, Pa.

## PUC turns down Idaho PURPA limit

The Idaho PUC turned down the Independent Energy Producers of Idaho's request to boost the project cap to 30 mw to qualify for PURPA rates.

The IEPI had argued that the rise in project size limit from 1 mw to 10 mw approved last year just isn't enough to make the economics of cogeneration work (RT, 7/16, 5/17) and only one PURPA contract has been signed under new rules. The PUC

raised the term of power contracts to 20 years from five at the same time the limit was raised so cogenerators like potato, cattle and timber producer JR Simplot would have more certainty in financing QFs.

It's too soon to see whether the longer contract terms and 10-mw size limit will succeed, the PUC wrote, and larger projects can negotiate non-PURPA deals with the utility.

## Mich PUC to hear co-ops' plea to avoid competition

The Michigan PSC isn't going to let the state's co-ops opt out of competition for another two years without going through a legislative-type hearing, set for June 3. The co-ops asked in February to delay opening their market to customer choice until 2008 and put

off unbundling bills and funding customer education on choice until July 2007 (RT, 2/10). The nine co-ops maintain that small-customer retail choice would attract too few switchers to justify the expense of opening their markets.

## McCullough really disagrees with Gary Ackerman

Strong regulation of markets, not price signals will ensure adequate supplies of electricity in the coming years, predicted research analyst Robert McCullough in Portland, Ore.

McCullough responded to Gary Ackerman's observation that FERC's orders last week aimed at curbing market manipulation will actually lead to fewer new power plants and a likelihood of flickering lights within two years (RT, yesterday).

Ackerman is executive director of the Western Power Trading Forum. "The right answer is for us to have prices that are verifiable," McCullough said, not "preposterous resources development" where companies respond to high prices, announce power plant construction projects and cancel them when prices fall.

"We don't need to pervert the entire market system to reward Williams for building plants," McCullough argues.

Revelations about widespread manipulation will mean that most load-serving entities will not trust the market anyway, McCullough said.

"Those resources are going to have to be built by utilities near load centers

simply because nobody in their right mind would be willing to buy from Mr Ackerman's clients," McCullough said, quickly adding that he thinks "very highly of Gary."

Regulation and legal remedies make markets more competitive, McCullough suggested, as evidenced by Britain's leading the Industrial Revolution.

McCullough likens Ackerman's view to saying "let's not inspect meat because it discourages wholesalers from shipping meat."

He described himself as "overjoyed" at FERC's response, in part because it was better than he expected.

"I'm a strong believer in competition and obviously none of these activities were competitive in any meaning of the term."

McCullough disputed Ackerman's contention that FERC's decisions were an effort to appease California and politicians.

Two Enron traders have pleaded guilty to charges of fraud and conspiracy, McCullough reminded.

"We have a variety of folks who are entering into consent decrees where they don't admit they're guilty but they are

willing to help convict other people," he added.

Ackerman acknowledged that individuals may have acted illegally and that the guilty parties should be punished "but hearsay and conversations that sound titillating do not constitute wrongdoing."

Some actions may not have been illegal, McCullough said, but should be called into question.

"If you're in a fender bender and you pretend to have whiplash and you don't, we know that you've crossed an ethical line."

Trading schemes like Fat Boy were fraudulent, McCullough asserted, and dangerous.

"If we end up with the wrong amount of power on a line it could lead to catastrophic failure so our sense of humor in this area is zero."

The Enron schemes had used "all of the flexibility in the system," McCullough added.

"There was rank collusion. There was rank dishonesty. I don't think there are any good economists that don't believe in checks and balances."

**PJM ready for heat:** PJM is predicting it has a fat 21.6% reserve margin for its highest peak this summer, helped along by 4,100 mw of new generation and 1,273 mw signed up for load management programs. The region will have 76,125 mw of capacity to meet its forecast summer peak of 63,028 mw. That's 700+ mw less than its absolute peak last summer when it weathered nine of its 10 highest days without declaring an emergency.

### House bill mark-up

**to start today** but the action may not get to electricity. Heather Wilson has a measure to prevent price gouging by government utilities by bringing them under FERC's wing and granting FERC refund powers where the agencies exceed just-and-reasonable rates — the big ones that sell more than 4 million mwh a year. The New Mexico Republican figures that would include the feds and some 35 munis and maybe a dozen or so co-ops.

**El Paso hopeful:** El Paso Corp has made some "bad investment decisions" in the past but the company is on its way to recovery, interim CEO Ronald Kuehn told investors yesterday. El Paso has \$1.5 billion in cash with revenue of \$2.8 billion, said Kuehn. The company will have lined up by the end of the second quarter 80% of its \$3.4 billion in asset sales planned for this year, Kuehn said, and already has \$1.7 billion completed.

**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; CFTC, Commodities Futures Trading Commission; 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; EDI, electronic data interchange; 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; INGA, 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; LNG, liquefied natural gas; 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); NAESB, North American Energy Standards Board; 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; SMD, single market design — FERC's plan to open wholesale markets to competition; 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; WECC, Western Electric Coordinating Council is the new name for WSCC, the Western Systems Coordinating Council, the NERC affiliate; UTC, United Telecom Council.

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