Restructuring Today

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Friday issue to be omitted: *Restructuring Today*'s next issue will be dated Monday, April 12.

Think tank rethinks default supplier paradigm

Given the use of default suppliers as a device to protect the public from competition, one wonders why the Center for the Advancement of Energy Market's (CAEM) turned its focus on this device typically used to allow state regulators to prevent competition.

We'll learn soon or maybe we've answered our own question.

Ask 40 or so of North America's leading regulators, marketers and utility executives what they see as the critical issue in designing a good default service model and you get 26 answers.

That question opened as CAEM's long-awaited draft report on default policy was previewed in Washington yesterday.

America has 15 default service operating models now, CAEM's report reveals.

Only one of the 15 models — Georgia's gas market — is the real deal.

In Georgia, Atlanta Gas Light got out of the gas merchant business. Default customers there are served by one of the 10 active marketers that won the bidding to provide the service.

Other default models have produced a lot of "faux competition" — a panoply of let's pretend ways of protecting monopoly rents.

What happens when state government employee continue to set the definitive price of the default supplier so low that no marketer would go there?

Nothing happens and the monopoly continues to collect monopoly rent. Regulators had lost in the state legislature but in the end won the right to continue fixing prices.

A sorry, sorry picture of how to hurt the public by undermining the discipline of the marketplace. CAEM's report is still in draft form but lays out a model for large C&I default service that looks a lot like Maryland's plan including:

- Default policies should segment customers by how much they consume;
- States should define large gas customers as those using at least 750 mcf annual peak demand and large power customers at 500 kw or more;
- Big consumers should have real-time meters;
- States should allow big customers only one default option;
- Utilities should pass through real-time commodity costs to big customers;
- Big users should pay a retail adder — not the snake — that comes close to what marketers would pay to acquire and service customers;
- Revenues above the cost of actual commodity service to big users should be credited back to wires charges, and
- Big consumers who shop should be able to turn to the default supplier if they lose their marketer.

CAEM's views — put together by a diverse group of stakeholders — show the shift from the earliest ideas about opening markets.

Many states built programs on the premise that everyone should be able to choose and big dogs shouldn't get to eat first.

Large C&Is were the first to choose in early gas shopping programs.

Another big myth, in CAEM's view, was that everyone would save. The new mantra based on several years of retail choice? Big C&Is have the most choices and are best able to choose.

CAEM's tough nut to crack?

Given that 40 attendees came up with 26 critical policy issues that each thought separately was most important, how can

Constellation wins bid to power UN and others

Constellation NewEnergy was awarded a three-year electricity supply contract with the US General Services Administration (GSA) in New York City.

The contract supplies 50 mw to many well-known public buildings such as the United Nations, Social Security Administration, Veterans Administration and Red Cross.

Sites under GSA's management throughout the five boroughs and Westchester County are included.

About 25% is to be green power such as wind and biomass, said Constellation.

New York's successful retail access program lets customers such as the GSA buy power in a way that is consistent with their energy goals, said Constellation.

Buying electricity from renewable sources is a federal policy. Constellation has supplied power to the GSA for almost three years, said the firm.

Fitch sees soft gas prices in Midwest

Fitch Ratings forecasts lower gas prices in coming years for the Midwest with lower market-clearing power prices and lower net revenues for coal and nuclear generation than last year.

Spark spreads for gas-fired generation will dip through 2006 as new generators come on stream but those spreads will then gradually improve because of weaker gas prices. Midwest IPPs with generation assets not under contract are going to see continued financial and credit stress — decreasing earnings and cash flow — in the years to come, Fitch predicted in *Midwest Regional Wholesale Power Market.*

The Fitch view is based on its assumption that regional energy use will grow at 1.6% through 2012 — among the nation's slowest — holding on to today's capacity glut except in the grid-constrained areas of Chicago and Wisconsin.

The base-case wholesale energy price forecast is generally neutral for distribution utilities, IOU and public power, Fitch indicated.

Despite the base-load forecast of lower average gas prices through 2008, the company said, extreme volatility lies ahead.

The Midwest's capacity stems from plentiful plant building and grid upgrades since the capacity-short years of 1998 and 1999 that led to giant price spikes.

The region will meet its reserve margin target of 12-17% through 2009.

Some Midwest distributors have supply obligations plus rate freezes, Fitch noted.

Some utilities in Missouri can't adjust rates to recover higher fuel expenses, Fitch noted.

6 stories in 1.5 minutes

USDA spends to get broadband on farms: The USDA Rural Utilities Service (RUS) fund has $2.2 billion for loans to get broadband into rural communities, reported *Broadband Networking News,* Monday. Projects worth about $1 billion were proposed and are awaiting approval. "Companies looking to jump on that gravy train and to bid their gear to the ISPs planning to build the rural systems must be RUS-approved vendors," said the report. With nearly 80 projects proposed, vendors not RUS-approved "would do best to be on the first plane out to Washington, DC, with the needed paperwork in hand," the report urged.

Avista gets wind from PPM Energy: Avista Utilities (Avista Corp) yesterday started getting extra power from PPM Energy's Stateline Wind Energy Center, under a new contract, Avista reported. Avista and PPM Energy signed a 10-year deal for up to 35 mw plus enough renewable energy credits — either from Stateline or other green power sources — to meet certification standards. Stateline near Walla Walla, Wash, can generate 300 mw making it the world's biggest wind plant, said Avista. The firm expects to get about 10 mw over the course of a year — enough power for approximately 6,500 homes, said the firm. Power in the deal is to be delivered at a price that's competitive with other sources of wholesale market energy, said Avista. The deal is a significant step in boosting wind power in the firm's resource mix, said Avista.

David Svanda, the former NARUC president, has been picking up clients at a healthy pace. International Transmission Co is the one that bought Detroit Edison's grid and is sort of a FERC poster child for independent grid operation. Svanda has worked for the Midwest ISO and EPSA as a

you find a model that works for everyone — even the small consumer?

Concerns included:

· Whether the utility should stay in or exit the merchant function. Two liked the exit idea, one saw too much pressure to exit;

· Consumer protection — either too much (one) or too little (three) and the difficulty of balancing the competitive market with consumer interests;

· Poor consumer education (two);

· Default service prices bothered many who worry about administratively set prices (two), pricing for small customers (five), the disconnect between fixed retail prices and fluctuating wholesale prices (four);

· The largest number cited the lack of direction for what default service is supposed to accomplish (five) and related concerns — getting the fundamentals right (one) and balancing the objectives (three), and

· The lack of regulatory certainty and commitment to competition.

Some worried about wholesale issues:

· Finding a workable method to procure retail supply;

· The potential for market power of buyers and/or sellers;

· Instability of seeking masses of power for customers in three PJM states at roughly the same time from the same group of suppliers, and

· Attracting investment in infrastructure and supply.

One audience member wondered whether a problem with default service really exists.

Conservative groups bolster FCC VOIP view

A joint letter from 33 citizen groups yesterday asked FCC Chairman Michael Powell to protect internet telephony from "crushing taxes and regulations."

The 350,000-member National Taxpayers Union (NTU) — an anti-tax lobbying group — organized the statement from like-minded, Republican Party-oriented groups.

"We urge the commission to send a clear signal of forbearance on new taxation and regulation.

"Such a policy will be a powerful sign to entrepreneurs, investors and consumers that the FCC supports the unfettered development of this promising new technology," supporters wrote.

The FCC hasn't seemed to waver in its commitment to exempt VOIP from telecom rules.

The question has moved out of FCC's hands into the courts.

The breadth of the NTU-led coalition underscores the importance of VOIP, said NTU.

The coalition includes national grassroots organizations, policy groups and think tanks with a combined membership in the millions including the American Legislative Exchange Council, Small Business Survival Committee, Council for Citizens Against Government Waste and the Family Research Council.

NJ school district switches to VOIP

The West Windsor-Plainsboro Regional School District in central New Jersey is saving by switching from traditional Centrex phone systems in 15 schools to Emtec's VOIP service, reported *Market Wire* yesterday.

"Cost was the driving factor for the district because their Centrex costs were sky high, said Emtec.

"Once we began to cost this out, we realized very quickly that the yearly savings from eliminating more than 500 lines of Centrex would pay for the cost of the new phone system in a very short time," said Rick Cave, the school district's director of technology.

He replaced "10 different phone systems, ranging in age from two to 10 years old."

The school system was paying for more than 500 Centrex lines, while 30% might not be used in any given month, said Cave. With VOIP the line costs drop to virtually zero, the report said.

California ISO pans WAPA idea of dispatching its own

The Western Area Power Administration's (WAPA) plan to setup a contract-based, sub-control area as an independent entity within the ISO's footprint went over like a lead balloon at the ISO.

The western reliability group didn't develop its plans in an open and transparent fashion and clearly doesn't plan to release details until the process is complete, the ISO complained to the agency's Sierra Nevada Region.

Reliability, operations and cost issues weren't "responsibly addressed thus far," said the ISO.

Adding insult to injury is that WAPA is a federal unit under DOE jurisdiction, said the ISO.

WAPA's plan stems from the coming