

# Restructuring Today



1-800-486-8201

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## Risk people reveal way to fix market

The Committee of Chief Risk Officers (CCRO) filled 25 pages with its recommendations to improve the transparency, accuracy, reliability and robustness of spot price indexes.

The group had set itself the task of coming up with best practices for companies reporting data to price surveys and for the publishers that collect the data.

Its recommendations include reassigning the role of reporting data to surveys from the trading floors to the back room where a company officer would verify that transaction data is complete and accurate before reporting it.

CCRO wants greater detail in those reports including the name of the counterparty and the trading platforms where deals are made.

Greater detail would eliminate double

counting when both parties to a deal report it to publishers and make it easier for surveys to verify transactions, said Jeff Walker, chief risk officer (CRO) at ACES Power Marketing. Publishers would be responsible for protecting confidential data from misuse and require employees who handle it to sign confidentiality agreements.

Data protection is a serious matter and companies would have to be assured it's tight.

"If competitors or suppliers can figure out where we have a large long or short position it will affect the price we pay for fuel or power," PSEG CRO Laurie Brooks told reporters, since "it could easily cost us hundreds of millions of dollars if that information got out."

Jesco von Kistowski backed "clearly defined methodology." He's COO of

RWE Trading Americas.

He favors one that sets standards for what is deemed a sufficient sample size, avoiding double-counting, determining values in thinly traded markets and omitting deals priced far higher or lower than the market.

CCRO want publishers to reveal methodologies and to tell how errors are resolved and what sources do if they find errors after indexes are published.

Very important, CCRO maintained, is that survey publishers and company's reporting deals submit to independent audits.

The white paper and a model contract to release counterparties from contract disclosure provisions are at [www.ccro.org](http://www.ccro.org).

NEMA President Craig Goodman backed the CCRO findings noting NEMA members have already adopted them and have begun putting them into action.

## Shell does landmark GHG trade with Nuon

Shell Trading yesterday completed Europe's first greenhouse gas trade, selling a large volume of emissions credits to Nuon Energy Trade & Wholesale of the Netherlands.

"The trade marks the beginning of potentially the largest market in government-devolved property rights for emissions for greenhouse gases," Shell predicted.

The European Parliament has voted to cap carbon dioxide and open the world's first international greenhouse gases trading system in 2005.

Shell and Nuon have power plants that would be subject to the emission caps.

At the start of the European market, each power plant or industrial site is to be allocated credits based on its capped emissions limit.

At the end of each year, plants will face a fine if they don't own credits at least equal to their cap.

Plants with emissions below their caps can sell credits while plants exceeding their limits must buy.

## It's Suedeen or nothing, say Democrats

Democrats on the Senate Energy & Natural Resources Committee will block permanent confirmation of Joe Kelliher as a FERC commissioner but not until the White House names former New Mexico regulator Suedeen Kelly to a seat now open.

"We'd like to get Joe confirmed but we've dug in our heels" insisting that Kelly fill the vacant non-Republican seat, an aide to Sen Jeff Bingaman, D-NM, said.

"Until the White House moves to fill that Democratic vacancy on FERC, it's an open question how quickly Joe Kelliher's nomination is going to advance," Bill Wicker, the aide, added.

Wicker insisted that there's nothing about Kelliher's record prompting the delay and pointed out that Bingaman thinks Kelliher "is a fine fellow that will make a very strong commissioner."

"God bless him, we love him," Wicker maintained.

Bingaman has long championed Kelly and got former Senate Majority Leader Tom Daschle in May to write President Bush proposing she get the nod (RT, 5/29).

"It's very important that the West be represented on this important commission and I think Kelly would

bring valuable experience and perspective to the work of this panel," Bingaman said at the time.

Bingaman's insistence on Kelly appears to diminish the chances for Marsha Smith of the Idaho commission to ascend to FERC.

"Suedeen's our candidate," Wicker said.

Kelly is former chairwoman of the New Mexico PUC (1984-1986) who is now a law professor at the University of New Mexico.

Bingaman is aware of Commissioner William Massey's "keen interest" in a third term, Wicker said, but "our focus is on Suedeen and getting that unstuck."

Massey has gotten some quiet support from Sens Dianne Feinstein, D-Calif, and Maria Cantwell, D-Wash.

Massey "has served as a beacon of integrity at FERC," Feinstein and Cantwell said in a letter sent last week to Daschle.

"At a time when FERC was an unknown regulatory body that refused to take on its statutory duty to ensure just and reasonable energy prices, Bill Massey was the only commissioner to listen to our concerns and those of our constituents," the senators added.

"Suedeen Kelly and Joe Kelliher are super-glued together," the aide added.

## 4 stories in 1 minute

**Community signs****big Pa contract:**

Radnor Township, Pa, wants more wind energy than anyone else via its 1.4 million-kwh accord with Community Energy. That's 62% of the township's power over three years. The power is generated at the new Mountaineer Wind Energy Center, largest wind farm in the East, says Community. Slightly higher cost is to be matched by savings from using better traffic lights. The new retailer is Energy Cooperative ([www.theenergycoop.com](http://www.theenergycoop.com)).

**Ignoring gold?** Utilities that aren't marketing services to small businesses are "ignoring a potential gold mine," Chartwell found in a survey ([www.chartwellinc.com](http://www.chartwellinc.com)). Utilities may think small businesses are a tough market to crack into but more than half surveyed said they'd buy green power from their utility and 49% would buy telecom. They like using a single provider, Chartwell said, in *The Small Business Market for Utility Products & Services*. No need to add expensive service reps since most said personal contact isn't needed.

**Williams sells**

**travel agencies:** Williams went further yesterday to return to its core gas business by selling its 60 travel agencies in 15 states to Pilot Travel Centers for \$189 million. Williams still has 29 convenience stores in Alaska on the block as part of its planned divestiture of its North Pole refining operations.

**Caterpillar wins large fuel cell**

**contract with Ohio:** FuelCell Energy and Caterpillar will get a contract with Ohio to install one of the nation's first utility-scale fuel cell power plants to feed power into the grid, Gov Bob Taft said today. It's Ohio's first such deal. The three-year contract will pay \$100 million and is to advance knowledge about hooking up fuel cells to the grid. The project is to be managed by American Municipal Power of Ohio.

**GOP congressman urges FERC take time****On deciding refunds from panic period in California**

To hasten closure to the issue, FERC should consider delaying its decision on whether California is owed refunds on power contracts, Rep Doug Ose, R-Calif, said yesterday in a letter to Chairman Pat Wood.

California officials have until Mar 3 to submit evidence to FERC that power prices spiked due to market manipulation and Wood has said the commission could rule on the issue by the end of next month.

"I urge FERC to carefully review all the documents presented from the California parties, even if it takes more than the three weeks that FERC has allowed itself for this task," explained the chairman of the subcommittee on Energy Policy, Natural Resources & Regulatory Affairs.

FERC settled on Jan 31 with Reliant over the company's admission that it withheld power from the California market for two days in June 2000, Ose noted.

"I was outraged by the tactics of Reliant traders to manipulate the

California market and cause electricity prices to artificially rise," Ose told Wood.

Ose expressed skepticism that FERC would "properly root out and resolve any other cases of market manipulation" since it is facing a mountain of evidence resulting from FERC's 100-day discovery period.

California must not feel that there was a "rush to judgement" or "a cloud will continue to hang over California's energy future."

Power plants are not being built, Ose added, "due to the continuing refund proceedings at FERC, fallout from the Enron scandal, lack of creditworthiness at many energy companies and an unstable regulatory environment in the state."

"This must be a fair process so that the people California can move beyond the refund proceedings and concentrate on making the necessary reforms to California's energy market."

The letter advised Wood that Ose has reintroduced the "Electric Refund Fairness Act," eliminating the 60-day delay before FERC can investigate and order refunds on complaints.

The bill would increase the criminal penalties for companies found to charge unjust and unreasonable rates from \$5,000 to \$1 million and prison terms from two years to five years.

**Powell tells Congress why FCC was wrong**

The FCC majority handed over its statutory authority to state PUCs, Chairman Michael Powell told the House Committee on Energy & Commerce Wednesday, when the majority voted 3-2 to uphold unbundling of RBOC switches (UNE-P) last week.

"One looks in vain to find a clear, coherent or consistent federal policy driving its decision. The focus of the majority was merely on giving the states a subjective and unrestricted role in determining the fate of the switching element and therefore UNE-P."

Powell's fellow Republican and opponent on the UNE-P vote told the committee that decisions on unbundling need to be left up to state regulators who know where operational and economic barriers exist in their states.

"The barriers competitors face in deploying equipment and trying to compete for residential customers in Manhattan, Kan, are different from the barriers faced to compete for business customers in Manhattan, NY," Commissioner Kevin Martin noted.

"I believe in limited government. I believe that competition, not regulation, is the best method of delivering the benefits of choice, innovation and affordability to

consumers," he added.

Eliminating UNE line sharing for broadband internet "flies in the face of the explicit congressional goals of bringing the American public new infrastructure investment and innovation and meaningful competition," Powell said in denouncing the majority's broadband vote.

"I do not accept the argument that the elimination of line sharing provides an affirmative incentive for ILEC deployment of new broadband infrastructure," he added, because "line sharing rides on the old copper infrastructure, not the new fiber facilities" FCC wants built.

Martin reasoned that since cable operators are "predominant" in residential broadband it didn't make sense to make incumbent phone companies unbundle their networks and leave cable operators off the hook.

Powell argued that the commission's decision is being called "a full employment act for telecommunications lawyers" and ultimately will harm consumers.

The telecom industry lost \$2 trillion in market value and half a million jobs in its recent troubles, Powell pointed out, and the FCC decision last week did nothing to remedy that.

## Energy Atlantic exits northern Maine

Energy Atlantic's decision to stop actively marketing to customers in its regulated parent's remote patch in northern Maine leaves default supplier WPS Energy Services as the only marketer competing with itself.

WPS bought Maine Public Service's generation when the utility was forced to divest. Energy Atlantic is the standard offer supplier for Central Maine Power's 500,000+ customers and will shift its focus to retail markets in the central and southern parts of the state where it has opportunities to grow and profit.

Non-shoppers in Maine are served by the supplier that wins the SOS auction that sets the price at retail.

SOS rates are rising modestly March 1, allowing more headroom for marketers.

The modest size of the wholesale market in northern Maine and the difficulty in obtaining "consistent, market differentiated and competitively priced wholesale energy" because of its isolation are fundamental reasons the marketer won't stay, Energy Atlantic General

Manager Cal Deschene told RT.

It's hard to be profitable and remain competitive in such a small market, Deschene explained, unless a marketer wins "the vast majority" of the C&I customers.

"Retailing of electricity is very much a volumetric business," Deschene said, and when you're spending marketing dollars to attract customers it makes it hard to compete with the standard offer.

Northern Maine is tied to the Canadian Maritimes grid — not directly to Nepoch — and has little generation of its own (RT, 2/19).

That isolation has piqued concern at the Maine PUC where regulators are seeking input on how to solve the isolation problem.

Deschene will be watching what comes out of the PUC's inquiry and would keep an open mind about returning to its regulated parent's market if conditions change.

The company is serving 230 medium commercial customers, four industrials

and 2,300 residential customers in northern Maine it had sold the hard way — one-by-one — and had "minor" success offering a pure green product, Deschene told us.

The numbers seem small except the whole market is about 35,000.

"The customers have been loyal and we'll miss not being able to service them," Deschene said.

The company will continue providing energy until its customer contracts run out.

Select starts tomorrow as Maine default firm: Select Energy (Northeast Utilities) begins serving tomorrow as default supplier for Bangor Hydro Electric and Central Maine Power large C&Is.

The marketer — one of the biggest if not the biggest in the Northeast — won the PUC auction.

It may supply the 150 mw from its own 1,400 mw of generation or other sources. The contract is worth \$30 million to the company.

## Texas' new PUC faces price-to-beat test

But it would be amazing if they don't back the ALJ ruling this week to pass on higher gas prices to the customers of Reliant Resources and TXU Energy.

When incumbent IOUs applied last fall during the gubernatorial campaign, the agency sent the issue to an ALJ for more study fearing Democratic Candidate Tony Sanchez would use any price hike in his now unsuccessful campaign to discredit the GOP and competition.

Fortuitously, Sanchez is out of the picture.

And the PUC lost when the IOUs appealed.

When the three regulators sit down together March 5, they are poised to OK a higher price to beat that reflects higher fuel costs and thus helps Texas avoid the let's-pretend markets in many other states.

Reliant, through its CenterPoint Energy, wants to go to 10.13¢/kwh from 9.36¢, up from 8.6¢ when markets opened last year.

TXU, through its regulated Oncor, wants a 12% rise to 9.69¢. The proposed increase would carry Oncor 17% higher than the 8.25¢ when markets opened.

ALJs Thomas Walston and Craig Bennett, citing the sharp rise in the price of natural gas, have recommended approval of the rate hikes.

Texas law lets regulated utilities twice a year ask for higher prices if fuel costs

(Continued on page 4)

## Calif PUC split vote starts Sempra probe

Despite intense lobbying by the utility and opposition by its president, the California PUC has voted to begin a probe into Sempra Energy's dealings with its marketing subsidiaries.

Sempra located its unregulated units in the San Diego Gas & Electric (SDG&E) and Southern California Gas (SoCal) footprints and that "raised a red flag" about potential conflicts of interest, said chief sponsor of the probe Commissioner Loretta Lynch.

"The unregulated businesses are vast and cover billions of dollars," Lynch added.

The PUC's action is an attempt to "strong arm" Sempra into renegotiating a \$6.6 billion power contract signed with the state Department of Water Resources (DWR), the company contended.

"There is nothing factual or specific in this order, so we have to question the

political motivations behind singling us out," the company added.

"That is absolutely inappropriate of Sempra to imply or suggest," said PUC President Mike Peevey, who voted against the investigation.

"No one from Sacramento has made an inquiry about this matter, at least to my office," Peevey added.

Consumer groups and others have raised concerns at the PUC about Sempra business decisions on gas supplies, power contracts and construction of transmission lines, the order contended (RT, 2/13).

Newly appointed Commissioner Susan Kennedy voted against the majority asking for a "higher standard."

"There must be some evidence, some basis for investigating the company. We can't afford to throw ratepayer dollars at a problem we can't even identify."

## PUC OKs DG plan to get power closer to market

The California PUC yesterday approved a plan to encourage placing DG closer to commercial and residential customers.

Potential benefits include reducing peak power demand on the grid, extending the life of existing power distribution gear, reducing capital risk for utilities, improving service reliability and developing new power technologies, the PUC staff wrote in the order.

The order covers ownership and operation of DG and how it is to be integrated into utility grid operations.

The PUC approved \$55.4 million of upgrades to Sempra's San Diego Gas & Electric Co (SDG&E) grid aimed at reducing congestion in Southern California and opening the way for better access for future power supplies from new generating stations in Mexico.

The grid projects will reduce power costs to SDG&E customers, the PUC forecast, by \$6 million to \$14 million a year and by \$13 million to \$50 million for all of the utilities served by the grid.

## Texas' new PUC faces (from page 3)

... rise more than 4%, a threshold passed several times.

The PUC has only once voted down a rate hike OK'd by an ALJ, the PUC said.

Pat Ennis of Priority Power Management utilities with capped prices are losing big time since gas prices have spiked.

Marketers without a cap can react immediately to fuel price changes while adjustment for the price to beat, said Ennis, takes time.

And the right political atmosphere.

Ennis is an aggregator who finds Texas a tough market with thin margins and small volumes.

Little power is being sold by marketers to residential with IOU prices

so low, he noted.

Rusty Cates, International Gas Consulting, described the price-to-beat concept as a "strange hybrid" in transition to competitive markets.

A contrary view?

Consumers Union, one of the advocates that tried to abort competition in the run up to market opening, called the prospect for higher retail prices "bad news for the consumer," quoting Tim Morstad, a policy analyst.

He expects customers to continue to "subsidize" deregulation efforts. Cates worries that when gas prices fall, IOUs won't ask for price cuts.

Lord, lord, he's clever.

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## March & April conference calendar

March	Location	Description	Organization	Contact number
2-4	Portland	Energy Summit	Western Energy Institute	503-231-1994
3-4	Calgary, AL	CERI North American Natural Gas	Canadian Energy Research Institute	403-220-2380
3-7	Chicago	Gas Distribution Operations	Gas Technology Institute	847-769-0556
3	Portland	NGX-201 Natural Gas Basics	Energy Business School	713-680-2500
3	Philadelphia	Energy Procurement & Management for End-Users & Utilities	PGS Energy Training	412-279-9298
3	Philadelphia	Secrets of Energy Sales Success	PGS Energy Training	412-279-9298
3	Berkeley	8th Annual Power Conference on Restructuring	UCEI	<a href="#">register online</a>
3-7	San Francisco	Energy Essentials Week	Energodynamics	415-777-1007
4-6	Houston	Electric Power 2003 Expo	Electric Power Expo	713-463-9595
4	Philadelphia	Fundamentals of Distributed Generation	PGS Energy Training	412-279-9298
4-5	Philadelphia	Understanding Energy/Electricity Futures, Options & Derivatives	PGS Energy Training	412-279-9298
4-6	Houston	Electric Power 2003	TradeFair Group	713-463-9595
4-5	San Francisco	Electric Business Understanding	Energodynamics LLC	415-777-1007
4-6	Glenn Allen, VA	NERC System Operator Certification	System Operations Success	704-641-4417
4	Portland	NGX-202 Natural Gas Industry Basics	Energy Business School	713-680-2500
4	Portland	PWR-201 Electric Power Operations & Economics	Energy Business School	713-680-2500
4	Portland	ETR-201 Using Energy Forwards, Futures, Options & Swaps to Buy, Sell, Arbitrage or Hedge	Energy Business School	713-680-2500
5	Portland	PWR-202 Power Trading, Transmission, Markets, Bilateral Trading Practices & Pool Practices	Energy Business School	713-680-2500
5	Portland	ETR-202 Basis Trading & Hedging and ERT-207 Options Pricing	Energy Business School	713-680-2500
6-7	Houston	Financing Oil & Gas	CBI	800-767-9499
6-7	San Francisco	Gas Business Understanding	Energodynamics LLC	415-777-1007
6	Portland	FRC-203 Standard Market Design	Energy Business School	713-680-2500
6	Philadelphia	Understanding Today's US Electric Power Industry	PGS Energy Training	412-279-9298
6	Philadelphia	Practical Applications of Structured Energy & Electricity Products	PGS Energy Training	412-279-9298
6	Philadelphia	Fundamentals of Trading Books & Values-at-risk	PGS Energy Training	412-279-9298
7	Philadelphia	How to Hedge Generation Assets & Structure Profitable Gas-to-Electricity Transactions	PGS Energy Training	412-279-9298

**March & April conference calendar continued**

<b>March</b>	<b>Location</b>	<b>Description</b>	<b>Organization</b>	<b>Contact number</b>
11-13	St Louis	Basler Electric Distributed Generation	Basler Electric	618-656-2341
13-14	Houston	Gas Processing Contracts & Negotiations	Energy Seminars	281-362-7979
17-18	Houston	Credit Risk Management for Energy Companies	Paradigm	866-637-1092
17-18	New Orleans	Understanding Energy/Electricity Futures, Options & Derivatives	PGS Energy Training	412-279-9298
17-18	Bethesda, MD	Advanced Derivative Structuring	Paradigm	866-637-1092
17-19	Charlotte	Mastering Business Development	MBDi	704-553-0000
17-21	Chicago	Commercial & Industrial Gas Marketing Fundamentals	Gas Technology Institute	847-768-0556
18-19	Newport Beach, Calif	ICEPAG 2003: International Colloquium on Environmentally Preferred Advanced Power Generation	US DOE, CEC, PARCON, APEP	949-824-1999
19	New Orleans	Understanding Today's US Electric Power Industry	PGS Energy Training	412-279-9298
19	New York City	Financing Wind Power Projects	Infocast	818-888-4444
19-20	Arlington, VA	Demand Response: Developing the Business Case Alliance	Peak Load Management	561-575-1788
24	Orlando	Managing the Risks of Climate Change	Infocast	818-888-4444
24-26	Houston	Distributed Generation and On-Site Power	Global Energy Solutions	online only
24-28	Chicago	Intermediate Industrial Gas Marketing	Gas Technology Institute	847-769-0556
24-28	Houston	Energy Business School	Energy Business School	713-680-2500
25-26	Arlington, Va	Energy Security: Safeguarding Our Nation's Power	Strategic Research Institute	888-666-8514
27-28	Washington, DC	2nd Annual Demand Response	CBI	800-767-9499
30-4/1	New Orleans	18th Annual Platts Global Power Markets	Platts	281-477-6979
31-4/1	Stamford	Fuel Cells 2003	BBC Conference	203-853-4266
<b>April</b>	<b>Location</b>	<b>Description</b>	<b>Organization</b>	<b>Contact number</b>
2-3	Denver	Connecting Wholesale and Retail Electricity Markets	Electric Utility Consultants	303-770-8800
3-4	Washington, DC	Energy Marketers 2003	NEMA	202-333-3288
3-4	New Orleans	Transmission System Protection	System Operations Success	704-641-4417
3-4	Boston	The LDC Forum	Interchange Energy Group	763-545-1515
7-11	Calgary, AL	Energy Business School	Energy Business School	713-680-2500
10-11	Orlando	Building Customer Relationships for Energy Companies	CBI	800-767-9499
14-16	Chicago	American Power Conference	Electric L&P and PennWell	888-299-8016
15	San Francisco	WECC: Power Market Workshop	Henwood Energy Services	916-609-7754
21-23	Arlington, VA	Energy Business School	Energy Business School	713-680-2500
22	Portland	WECC: Power Market Workshop	Henwood Energy Services	916-609-7754
23-25	Washington, DC	Intro to Electric Power for Legal, Accounting and Regulatory Professionals	Ross Baldick	512-371-3516
28-30	Madison	The Electric Utility Business	University of WI-Madison	800-462-0876
28-30	MBDi	Mastering Business Development	MBDi	704-553-0000
28-5/1	Phoenix	Energy Business School	Energy Business School	713-680-2500