

Restructuring TODAY

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Election Day 2000

Quest Energy takes off in Michigan

Several Michigan commercial and industrial accounts left Consumers Energy and Detroit Edison for Quest Energy of Ann Arbor, the first electricity retailer to get a license.

Meijer Stores of Grand Rapids switched.

"Most of our stores located in the Consumers Energy service area will make their switch this month," said Eric Erickson, Meijer energy manager.

He reported "significant" price savings.

Quest Energy will be delivering about 500 mw to customers throughout the state making it one of the largest retail suppliers in the country, Walt Balcer, Quest CEO said.

The phase-in of customer choice programs lasts until January 2002 when all customers will be able to choose a supplier.

Sempra wins first prize for energy savings at Waco

The Association of Energy Engineers (AEE) said Sempra Energy Solutions was the winner of the "Energy Project of the Year" award for cutting Baylor University's energy costs by a third.

Sempra had upgraded Baylor's existing co-generation unit and installed a new energy management system among other chores such as replacing the campus' 50,000 fluorescent light fixtures with more efficient ones.

The Waco, Tex university has an annual energy bill of more than \$4.8 million.

The award was presented during the AEE's 23rd Annual World Energy Engineering Congress held in Atlanta yesterday.

The project saves the university more than \$1.5 million in annual energy costs, but Baylor now has a state-of-the-art energy infrastructure paid for through these savings, said Al Thumann, executive director of AEE.

5 stories in 1 minute:

Russians are coming,

Russians are coming: Lukoil, Russia's largest oil company, bought Getty Petroleum Marketing, the gasoline and fuel oil retailer on the East Coast Friday, for \$71 million making Getty the first publicly traded US company to be acquired by a Russian firm. Lukoil wants to begin marketing its refined products here. Getty operates some 1,300 gas stations along with a retail heating oil network.

FirstEnergy signs

a big one: FirstEnergy was picked by National City bank to provide energy and services for 1,300 branches in six states. The five-year contract was given to the Akron energy services company over five other bids.

Dynegy big chunk

of Europe's fiber: Dynegy is buying *ixaxis NV* that owns and operates nearly 9,000 miles of 10-gigabit fiber optic network in Europe. "This... firmly establishes the platform for the expansion of Dynegy's network connectivity and broadband communications strategy into Europe," said Chuch Watson, Dynegy CEO. Terms were not disclosed but Watson indicated it was less than \$200 million.

136 Ohio towns to

vote on aggregation: Consumers in 136 Ohio communities will vote today on whether to aggregate their electric load when markets open Jan 1. The Ohio Citizen Action group predicts most all the communities will vote to aggregate. Toledo and Cleveland are the largest cities voting. FirstEnergy is the incumbent utility serving the areas.

PSC staff in Fla

fight 3 merchants: The Florida PSC staff is against three merchant power plant applications and wants the commissioners to reject the proposals during their meeting today. Dallas-based Panda Energy wants to build in St. Lucie County and Lake County, while Pacific Gas & Electric of San Francisco was eyeing a plant in Okeechobee County. Staff says the petitions didn't meet state Supreme Court criteria that ruled merchant plants must show they have retail customers before they can be built.

Koch expects unrelated industries to pool weather risks

Utilities soon to get weather departments

That would fuel the fledgling derivative trading market and in turn bring down risk management costs, Tom Ruck, vice president of weather sales for Koch Energy Service Co, predicts.

Unlikely risk partners need a risk coordinator.

Enter Koch Energy Service -- front and center stage -- a "risk absorber," Ruck calls it.

Koch figures the odds of a pay out in return for a premium fee and writes the contract.

Skillful matching of opposites can save money for those at risk and the lower fees would lure in more businesses while boosting market liquidity, he forecast.

"Aggregation will be the theme next year," he added.

Koch (pronounced coke), Enron and Aquila pioneered the weather derivative market in 1997.

Early on a lot of the trading was done among the initial three firms. It got off to a slow start but is picking up steam.

Dynegy has just come into the weather market, said Ruck, who predicts more utilities will form in-house weather units if not to make a profit at least to keep in touch with the market.

Southern Co and Reliant Energy have in-house weather units, Ruck remarked.

While cross industry aggregation hasn't been talked about much, said Ruck, he sees a giant market for it.

A farmer, for example may want to cut weather risks and might join with a utility buying weather derivatives.

A fur coat marketer can offset the risk of good weather by joining with perhaps Toro, the snow blower maker.

Toro did well in New York when nature dropped 76 inches of snow in the winter of 1996 but a couple years later New York had less than one inch for the entire season and Toro sales were disastrous.

Ruck expects utilities to lead the way into risk derivatives since they have more to lose when the weather gets really good.

If enough people do risk hedging,

competitive pressure will nudge along everyone and weather derivatives will become a mainstay of the marketplace, he reasons.

"We're just approaching that stage in development but next year will be a very good year for weather derivatives," Ruck proclaimed.

"It's just a matter of time," he forecast.

Contracts are based on degree days or inches of rain or snowfall.

For a utility, it's not unusual to have exposures of \$40,000-\$50,000 per degree day, Ruck reported.

For small companies or even individuals like farmers, the risk could be as small as \$500 per degree day.

Utilities, fuel oil distributors and LDCs have been hedging for two or three years and thus understand the programs and the pricing, he added.

But a Burlington Coat Co may have a more difficult time feeling comfortable with the pricing methodology, he said.

Ruck then has his work cut out for him educating CEOs and CFOs about what makes a weather risk and how the services available work to protect a company's bottomline.

It has to make "rational sense," Ruck declares, otherwise the executives won't be able to explain to their board of directors the need for buying hedges.

Negative impacts on corporate earnings and shareholder value has prompted Wall Street analysts and debt rating services, such as Fitch and Moody's, to preach the weather risk gospel.

The days when firms had the luxury of using weather as an excuse for "bad" quarters are almost behind us, Ruck noted, and may go away completely in a year or so, he predicted.

Not to hedge is a deliberate decision now, not an accident, yet getting smaller utilities involved is challenging, he added, especially for firms not under competitive pressure.

Is it an \$8 billion market as some have reported?

That's "a bit of a stretch," he replied.

Koch figures that the total amount of risk that could have been paid out since the market's inception in 1997 is \$8 billion or less.

Koch is gambling that weather hedging will become a multi-billion dollar annual market but trying to guess when is like trying to predict the weather.

GPU gets web billing: GPU has beefed up its internet billing system to allow residential and small business customers to receive and pay their bills

online by using CheckFree, a web-based billing service.

Seward muni's fate to be told today

Seward, Alaska voters will decide today whether to sell their municipal electric utility.

Seward's utility has just 2,500 customers but residents hold it dear and appreciate the quick response of its four linemen and the city fathers appreciate the \$1 million a year net income that goes into the city's general fund.

Some residents are curious about selling a venture that's well run and making money.

If three-fifths of the voters approve the measure, the city begins negotiating both the terms and sale price with whatever buyer is interested.

Homer Electric Assn, the Kenai Peninsula's dominant electric utility with 18,000 customers, has made it clear its interested.

City leaders think today is a good time to get a good price. If the state deregulates, energy retailers could cherry pick the larger users and the utility would make less money and earn less and sell at a lower price, they're telling voters.

Seward has relied heavily on state grants to keep its link to Chugach Electric's substation in Cooper Landing but that might change under deregulation.

Chugach is Alaska's biggest co-op and largest supporter of free markets.

The future is too uncertain for the "little guys," said the mayor.

NEM write-offs to push competition

Given the reluctance of utilities to make new investments that would foster competition, NEM, the electric-gas marketers, are pushing for accelerated cost recoveries by way of expedited prudency reviews and tax credits to encourage these investments.

NEM unveiled its national energy technology policy at The Woodlands in Texas last week (RT, 11/3).

NEM wants immediate nationwide implementation of uniform business rules and uniform information standards like XML for use on the

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internet.

At a minimum, existing tax credits should be expanded so that costs of modernizing and upgrading computer and information systems, metering systems, billing systems and customer care facilities to facilitate competition will be considered "qualified energy restructuring investments," said Craig Goodman, NEM president.

That would allow marketers to build regional and national economies of scale to lower energy prices.

Governments "maybe should mandate uniformity, he said.

A benefit of providing tax credits for qualified energy restructuring investments is that regulated entities will face less risk in making investment decisions, he explained.

The adoption of uniform processes, protocols and procedures will lower energy prices because marketers will be able to design and implement information systems to do business across the country.

The cost savings marketers realize by virtue of uniformity can in turn be passed on to consumers under competitive pressures.

Goodman predicted the competition will lead to creation of new products and services.

NEM's National energy Technology Policy is available at www.energymarketers.com

2001 seen as big year for mergers

PricewaterhouseCoopers (PWC) predicts 2001 will be a busy year in utility mergers and acquisitions (M&A) driven in part by the undervaluing of electric utility share value.

IPPs have outperformed their regulated bretheran and can arbitrage their higher value to go after generation assets, the firm predicts.

Merging will continue to appeal to those regional firms that want to become super-regionals in the belief that size equals survival.

PWC forecasts retail companies will become multi-service and technology providers via M&A, joint ventures and alliances.

Those utilities that can't meet the demands of the business customer are asking for takeovers by companies who can, PWC warned.

"Utilities, in their quest to increase shareholder value, will accelerate their efforts to unlock the value of their generation and trading portfolios -- either through disposals or spin-offs,"

said Doug Meier, lead Transaction Services partner at PricewaterhouseCoopers.

Meier cautioned not to underestimate globalization and predicted that UK and European utilities will continue their expansion into US markets.

US utilities will modestly expand overseas, he added.

Team to add 633mw to Houston market

Avista and German utility STEAG have teamed with NRG Energy (Xcel) to build and run a 633 mw natural gas-fired merchant plant in Fort Bend County, Tex.

The venture will own 51% and NRG gets the remaining shares. With permits in hand, construction will begin early next year and the plant will be finished in 2003.

Estimating that ERCOT generation shortfall at 10,000 mw in 2005, company officials said the plant would help reliability in one of the fastest growing regional economies in the US -- southwest of Houston.

RESTRUCTURING DIGEST

Tonight watch Fla,

Pa, Wisc closely: They have 66 electoral college votes, reports *The Kiplinger Letter*. That's almost a quarter of the 270 votes needed to win. Whoever wins two of the three states is likely to be the next president. Kiplinger thinks Bush will take Florida and Gore's lead in Pennsylvania "has evaporated."

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