

RTO Order Seen as Boon for Energy Marketers

Federal energy regulators last week threw down the gauntlet on companies looking to create regional transmission organizations (RTOs) in the Northeast and Southeast, ordering them into mediation in order to create RTOs that reflect a much larger geographical area than the companies originally envisioned in their applications.

DG Gas Demand Effect Unknown

A major question mark in most models for the future of gas demand for power generation is the effect of conservation measures and distributed power applications.

Conservation is clearly a negative for gas demand for power generation — as it lowers consumption — but it could increase some industrial gas demand, as more conservation product sales means more need to be produced. Home Depot recently said that demand for energy-efficiency products — from insulation materials to energy-efficient lighting — increased in the first five months of the year “astronomically.”

The home-improvement retailer said that demand for those products was especially strong in California and the Northeast.

But the effects of an increased use of distributed generation (DG) is more difficult to pin down.

Those added as stop-gap, or peak-shaving, measures — like the 22 TM2500 gas turbine generator sets to be installed by GE Energy Rentals at temporary sites in Arizona, Utah, and Washington — will add to gas consumption in those regions. But some diesel- or dual-fueled on-site generators could hamper gas demand, as consumers try to avoid being captive in a market heavily dependent on gas-fired baseload generators.

And it might just be this uncertainty about bottom-line effects that has slowed the implementation of certain distributed power systems.

The National Energy Marketers Association (NEMA) last week unveiled “National Guidelines for Implementing Distributed Generation and Related Services” in order to urge regulators and utilities to break down barriers to implementation.

“Distributed generation is the ultimate act of consumer energy independence — the cell phone of a restructured energy market,” said NEMA President Craig Goodman. “Unfortunately, there are far too many penalties and barriers to small consumers who wish to invest in distributed generation. In order for consumers to invest in distributed or self generation, existing penalties must be eliminated and consumers must be able to sell excess energy and buy needed back-up services at reasonable rates.”

Some utilities have embraced DG as a new revenue stream and to continue customer relationships, but far more see it as a threat. It will likely take new legislation and streamlined regulations to bring lofty plans by some fuel cell and microturbine developers to fruition.

—Scott C. Speaker

While transmission owners expressed disappointment with the development, it could prove to be a boon to marketers and merchant power generators.

The Federal Energy Regulatory Commission (FERC) decision effectively divides the US into four large RTOs that would encompass the Northeast, Southeast, Midwest, and West, with the Electric Reliability Council of Texas still remaining outside of any RTO due to its separation from the two main transmission grids.

At its meeting last week, FERC denied the RTO application of the New York Independent System Operator (ISO) to create a New York RTO, stating that the RTO did not demonstrate adequate scope in its market size. For the same reason, FERC also rejected the application of the New England ISO and a request for a declaratory order from Maine utility Bangor-Hydro to create a New England RTO.

Instead, the applicants are to join with others that sought to create an RTO based on the Pennsylvania-New Jersey-Maryland Interconnection (PJM) in mediation talks in order to create a Northeast-wide RTO, using the PJM application as a platform.

In ordering the mediation, FERC stated that, “while the scope and regional configuration of the proposed RTOs either are provisionally consistent with Order 2000 or do not meet Order 2000’s scope characteristic, in order to successfully address seams issues among the three existing Northeast ISOs and establish efficient markets in the Northeast, it is necessary that all four entities combine to form a single RTO.”

In the Southeast, FERC denied the RTO applications filed by the Southwest Power Pool, Entergy Services, Carolina Power & Light, and Southern Company Services, and ordered them into mediation to create a southeastern RTO, saying that, “in order to successfully encompass the natural market for bulk power in the Southeast, it is necessary that the southeastern transmission owners combine to form a single RTO.”

Any RTO in the Southeast will likely center on the Grid-south RTO, which FERC earlier approved, and includes Scana and Duke Energy, as well as Carolina Power & Light.

Under the order, two FERC administrative law judges will have 45 days to hold mediation discussions before presenting their findings 10 days after the end of the talks.

The commission’s move is viewed as a huge disappointment to the transmission owners and the ISOs, but for merchant generators and energy marketers the decision is a boon to their efforts to create a viable national electricity market.

Craig Goodman, president of the National Energy Marketers Association (NEMA), called FERC’s decision a “milestone in electricity restructuring in the US.” Goodman’s views were echoed by Electric Power Supply Association (EPSA) Senior Manager for Policy Mark Bennett, who said, “We’re very encouraged by this. It’s definitely a positive development.”

The New York ISO seemed concerned by FERC’s decision. Spokeswoman Carol Murphy said in a statement, “These are extremely complex issues and our legal counsel as well as our market experts will need some time to consider the ramifications it might have.”

Ellen Foley, spokeswoman with ISO New England said,
(continued on page 11)

(continued from page 10)

"We are disappointed that FERC did not accept our RTO filing. We feel it satisfied the criteria of an RTO, including scope." A spokeswoman with Southern Company said that the power company needs more time to look at the FERC order before making any statement on it.

Most immediately, FERC's decision to expand the scope of the RTOs will alleviate some concerns regarding "seams" issues — or the transfer of power between different RTOs — by simply reducing the number of RTOs to deal with. "Consolidation is a positive step towards that end," said EPSA's Bennett.

According to NEMA's Goodman, removing single-state RTOs — such as that proposed by New York — will not only help with the seams issues but will remove political interference that could harm power markets.

"As it is, even single-state ISO's have been problematic, California being the worst example. A single state controls all of the decisions affecting the market. By consolidating, you get a balance of political control. The politics of many states will influence the market and that's a good thing," he said.

The commission's decision could mean other RTOs will face mediation to sort out any difficulties, and it did not rule out mediation for other region-wide RTOs. Even though FERC recently approved Florida's single-state GridFlorida RTO, it still encouraged the state to take part in the Southeast mediation talks. The commission also noted that the Southwest Power Pool might consider joining in the Midwest RTO.

Of course, most of the legwork will likely involve creating a viable RTO out of the shattered California and Pacific Northwest electricity markets. FERC is also working under a self-imposed deadline of Dec. 15, 2001, to have all transmission companies under RTOs.

—Christian Schmollinger

Calpine Powers Ahead With Plans

SAN JOSE, California — Calpine reported a busy week last week, announcing that it was making headway on three power plants in California and Alabama.

The company said that its Hog Bayou Energy Center started full commercial operations last week after finishing final startup and testing procedures. The 245-MW natural gas-fired combined-cycle power plant is located in Mobile, Alabama, and is Calpine's first combined-cycle merchant

power plant.

Calpine owns a 67% interest in the facility, with InterGen holding the remaining interest, the company said.

In addition to the Hog Bayou facility, Calpine has three other combined-cycle projects underway in Alabama. These include the 794-MW Decatur Energy Center and the 790-MW Morgan Energy Center, both located in Decatur, Alabama, and the 770-MW Hillabee Energy Center in Tallapoosa County.

Overall the company has announced more than 3,000 MW of additional generation in the US Southeast.

In California, Calpine and partner Bechtel Enterprises announced that their application for certification for the Russell City Energy Center met the California Energy Commission's (CEC) data adequacy requirements. The project was also approved for expedited review, making it the first project to meet the CEC's requirements for six-month review.

As proposed, the Russell City facility would be a 600-MW natural gas-fired combined-cycle power plant and would serve the outlying areas of San Francisco, California.

The company also announced last week that it completed its acquisition of the Otay Mesa Generating Project from PG&E National Energy Group. The project — located in San Diego County — is expected to begin construction later this summer, with completion targeted for mid-2003.

Under the terms of the sale, Calpine will build, own, and operate the site, with PG&E National Energy Group contracted to receive up to 250 MW of output.

Shaw Group to Build FPL Plant

BATON ROUGE, Louisiana — The Shaw Group said last week that it signed a contract with FPL Energy, a subsidiary of FPL Group, for the construction of a 725-MW cogeneration power plant. Shaw said it agreed to execute the engineering, procurement and construction services for the project known as Marcus Hook, which is located at a refinery near the Philadelphia area.

The power plant will be a cogeneration natural gas-fired facility that will utilize three General Electric 7FA turbines, along with three heat recovery steam generators, and one steam turbine.

Engineering on the plant will start immediately and the plant is scheduled to be completed in early 2004.

(continued on page 12)

COMPARATIVE FUEL PRICES

(Cash Market)

July 16, 2001

				APPALACHIA						
				Appalachian Pool		Ohio/Big Sandy River Coal				
				Dlvd (Util)						
				\$3.41/MMBtu		\$44.75/ton				
						\$1.86/MMBtu				
EAST COAST				GULF COAST						
				Natural Gas	Natural Gas	Gulf Coast:				
				Texas	Louisiana	Heating	Residual	Residual	WTI	
				Onshore	Onshore	Oil—No. 2*	0.7%	3%	Cushing	
				Dlvd (Util)	Dlvd (Util)	Oil—No. 2*	0.7%	3%		
Natural Gas	New York Harbor:									
New York	Heating	Residual	Residual							
City Gate	Oil—No. 2*	0.3%	1%							
	71.46¢/gal	\$21.05/bbl	\$19.27/bbl			69.57¢/gal	\$21.50/bbl	\$17.90/bbl	\$27.47/bbl	
\$3.47/MMBtu	\$5.15/MMBtu	\$3.35/MMBtu	\$3.07/MMBtu	\$3.26/MMBtu	\$3.27/MMBtu	\$5.02/MMBtu	\$3.42/MMBtu	\$2.85/MMBtu	\$4.74/MMBtu	

NOTES: (1) Residual=Residual Fuel Oil, priced exclusive of taxes; (2) WTI=West Texas Intermediate crude oil; (3) % = % of sulfur content. *Average sulfur content = 0.2%-0.5%.

SOURCES: Gas: *Natural Gas Week*; all prices volume-weighted. Oil: The weekly average of *The Oil Daily's* cash price postings.