

Restructuring TODAY

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123 get BPA long power contracts

BPA signed 11,986 mw of five- and 10-year forward contracts that become effective in October next year.

Because the law requires their needs to be met first, 6,300 mw of the contracts went to favored 123 municipal agencies.

Four munis signed five year contracts with the rest opted for 10 years.

Five IOUs signed 10-year contracts and one selected a five-year contract for a total of 1,000 mw.

Eight aluminum companies signed five-year contracts for 1,486 mw, including Kaiser although Kaiser picked an opt-out clause if the rates got too high.

BPA will only have 8,800 mw of supply on hand for the contracts, so it will have to get the rest in the market.

Thirty utilities signed for 2,000 mw of Slice program (RT, 5/24), the one that gives utilities a slice of the hydro cheap power in years when BPA has lots of snow melt but much less when snow has been scarce and power is not so cheap.

Slice was designed to meet utility requests -- especially Seattle City Light - but has forced utilities to manage their supply more carefully in the lean years.

Duke gets generation from Waste Management

DukeSolutions bought eight independent power facilities from Waste Management for \$100 million in hopes of taking in revenues exceeding \$1 billion over the next 15 years.

The assets include cogeneration and renewable energy plants in California, Pennsylvania, Maine and Florida with a total capacity of 244 mw.

The facilities have long-term contracts with Southern California Edison, Pacific Gas & Electric, Maine Public Service, Florida Power and Pennsylvania Power and Light.

The assets will expand inside-the-fence presence in the industrial and institutional markets, said Keith Butler, DukeSolutions CEO.

Craig Glazer urges FERC to give PJM chance to work

Craig Glazer, former Ohio PUC chair, has been on PJM's payroll just three weeks as its manager of regulatory affairs.

He begged attendees to stop quibbling over control of assets and to focus on the RTO's real commodity -- information.

"Don't get hung up on control of physical issues," Glazer lectured the EEI conference.

"It's information that makes the market work," he added. If RTOs concentrate on the best way to deliver information and give participants tools to use that data, then solutions to all the other problems will fall into place, he explained.

PJM, he declared, works, imploring FERC not mandate a certain congestion management model that would upset PJM's fledgling marketplace.

Karl Pfirrmann, Allegheny vice president, admitted his utility had "danced with every partner" in trying to find an RTO to join.

Not liking any of them, it came up with an idea to extend PJM's market area and create PJM West. So far, Allegheny is the only member but Pfirrmann was persuasive about the utility's hope it can lure more members.

Eventually he would like PJM to expand to include the entire Northeast.

Allegheny supports a transco/ITC model, but it's "not set in stone," he added. It's possible the company could embrace several different forms, he said.

PJM West has umbilical ties to PJM and thus will honor all PJM operating and reliability agreements for now.

Differences in defining "reliability" will force the RTOs and ECAR to negotiate a new definition, Pfirrmann believes.

Over time, Allegheny envisions PJM West to evolve into an independent transmission company to get more control over its assets but PJM would operate the market.

PJM West is considering how to handle the NERC security coordinator's function because, Pfirrmann forecast, that the reliability councils "will probably change" soon.

In the meantime, PJM will fill that role, he added.

What you should know about Gov George Bush

Very few people know about an important aspect of Gov George Bush, the person as it relates specifically to our field.

We covered the tedious battle in the Texas legislature in 1997 where the forces of competition tried to get the retail power market open to the discipline of the marketplace.

The IOUs worked hard to make that effort fail.

Bush worried that his effort might not make it and didn't put his name at risk.

He encouraged his lieutenant governor to work for a bill and it failed.

Then the legislature adjourned for two years as it does.

Bush fumed.

He called in Pat Wood, PUC chairman, and instructed him to punish one of his key opponents -- Central & South West.

Wood obliged and persuaded other PUC members to cut C&SW's rates. The word got out and the share price fell.

C&SW desperately tried to find a merger in Texas and may have come close to linking up with Houston Industries.

When that failed, Linn Draper of American Electric Power came on the scene motivated by what now had become a bargain price.

We learned this story from our most respected source but a couple weeks after the merger was announced during Christmas week in 1997 we attended a press luncheon at EEI where C&SW CEO Dick Brooks was EEI chairman.

We asked him about what Pat Wood had done and he confirmed the story.

"They drove down our share price," Brooks told us.

Recently C&SW disappeared from the corporate scene but the "destroy them" story played big in Texas the next time the law makers were in Austin.

The bottom line is that Gov Bush could marshal effective, credible forces in getting enacted what more and more observers are singling out as potentially the best retail competitive market in the land.

No IOU would risk that kind of wrath.

You might say that destroying

C&SW was strong medicine but Gov Bush's loyalties were not to monopoly rent. Bush resented Texas consumers' burden of prices kept high without the discipline of the marketplace.

He favored good prices that would help Texas businesses to compete.

NEM President Craig Goodman praised the Texas model as "a bold move."

"I took a lot of courage to do this," he said.

"Given the California experience we're optimistic that Texas will show leadership," he added.

We expect President Bush to be a strong leader worthy of our vote, committed to competitive marketplaces. Vice President Gore has had lots of opportunity to campaign for competition but if he favors ending government regulation of monopoly power, we've missed that speech.

President Clinton and DOE Secretary Bill Richardson have had a good record of working to open up retail markets in our field but we know nothing about Gore's views here.

We disagree with Gov Bush on many issues but in this area, the choice tomorrow will be easy for us.

Meanwhile PUC Chairman Wood is expected in Washington if Bush wins. *The Washington Post* yesterday mentioned him as one of the top two candidates for FCC chairman.

Certainly no one would be surprised if Bush were to name him FERC chairman filling the vacant GOP chair.

That would tend to disappoint FERC Commissioner Curtis Hébert who would be supported vigorously by GOP Senate leader Trent Lott, R-Miss.

Between the two, Wood would be

less reticent in herding recalcitrant IOUs into big RTOs so America's antiquated and in some areas even rickety grid can get fixed, getting ready for the big jumps in demand to be fostered by internet activity.

But what if Gore wins?

Hoecker continues with initiative blocked along the way by Linda Breathitt?

One positive is that Warren Buffett is supporting Gore and would be wholesome, competitive market influence.

Wood at FERC could become President Bush's point person in a federal move to open retail markets.

ELCON wants all filings to be rejected

Aside from RTO West, the big name American industrial firms who use the grid want FERC to reject all the submissions, said Anderson (above) ELCON executive director told the EEI conference Friday.

None of the filings, he contended, meets the spirit of Order 2000.

FERC saw Order 888 wasn't working so now they expect to see benefits from Order 2000, he said.

FERC and ELCON are hoping RTOs will end pancake rates, manage congestion better, accurately report ATC, better manage parallel loop flows, improve planning, better coordinate among states, lower transaction costs, provide more retail access, environmental benefits, boost reliability, cut back discrimination and

produce lower prices.

FERC should use these criteria in measuring the value of the RTO submissions.

For Anderson the filings have been weighed in the balance and found wanting.

Did any filing show real "independence" as required by FERC, he asked.

Did the filings show real operational authority?

The filings, in Anderson's mind, varied greatly but mostly failed.

Some simply thumbed their nose at FERC, he said, by saying they wouldn't file an RTO.

Others just filed progress reports without really spelling out any plans. A few made rather good filings -- while others "were simply shams," he found.

RTO West had the best filing although its incomplete, in Anderson's view.

He was impressed with its good ideas about guaranteeing independence, scope and congestion management.

"Their proposal to suspend existing contracts in exchange for FTRs is a great innovation," he added.

Anderson wanted to encourage what he thought was positive movement in GridFlorida in its treatment of tariffs.

SPP had little merit but at least the filing understands the concept of interregional coordination, said Anderson.

The RTOs didn't handle the idea of coordination in submissions, he added.

Regional markets can't work across multiple RTOs unless the seams issues are done right, he argued.

Most filings pose real questions about the lack of independence, Anderson observed.

For example, SeTrans (Southern) will meet the independence requirement under one of three options and told FERC to guess which one, ELCON observed.

FERC rejected SPP's May filing for lack of detail on independence but they came back with the same principles again in October.

SPP proposes that both the RTO and transmission-owning utilities will have the right to file Section 205 tariff changes.

That clearly violates FERC's provisions, Anderson said.

FERC had questioned whether SPP had enough scope and a good configuration to run the grid but now that Entergy's going to "operate under SPP," the requirements may be met.

The problem, countered Anderson,

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	Contract Size (x16 hrs) mw	Total Contract Volume mwh	Highest Executed Trade \$/mwh	Lowest Executed Trade \$/mwh	Weighted Average Index \$/mwh	Last Month's Average Index \$/mwh
Cinergy	50	80800	39.25	35	36.82	33.2
Entergy	50	13600	43	39.25	40.47	43.54
TVA	50	35200	40	37	38.76	33.59
ComEd	50	800	35.75	35.75	35.75	33.49
PJM West	50	27200	44	40	42.29	39.3
Palo Verde	25	6000	77	73	74.62	91.24
Mid Columbia	25	6000	100	93.5	96.6	103.64
COB	25	7200	103	100	101.56	112.1
Four Corners	25	n/a	n/a	n/a	n/a	125
Mead	25	n/a	n/a	n/a	n/a	116.76
NP 15	25	2000	105	104	104.6	108.2
SP 15	25	4000	82.5	80	81.03	91.23

For additional information contact PricewaterhouseCoopers at 877/363-6275.

is that SPP and Entergy are seeking RTO status on their own.

"How can Entergy then change SPP's scope and configuration?" he asked.

"FERC will have to deal with that."

Entergy wants to control the commercial terms and conditions for transmission over its facilities.

How should FERC begin the evaluation process?

Easy, said Anderson.

Disapprove outright all the transco filings that propose to be RTOs and act as operating authorities where marketing affiliates operate.

For most of the filings left, FERC can build upon what few good things they have and "conditionally" approve them, Anderson urged.

The filers should be given specific time frames to fix what was wrong. Make them come back in six months with solutions, he offered. FERC at a minimum, said Anderson, should order a real resolution of the seams issues or have the utilities show cause why RTO mergers shouldn't be mandated.

Such mergers could be:

PJM with New York and New England ISOs.

Grid South, SeTrans, GridFlorida along with SPP-Entergy and for that matter MISO, Alliance and maybe MAPP.

If the seams issues aren't resolved, he predicted, "it will kill markets."

Refunds for San Diego people?

While San Diego politicians such as Sen Steve Peace want refunds for victims of his AB 1890 and the lack of generation, Reliant Energy's John Stout raised a good question last week.

How could FERC ever determine the correct price?

They'd have to do that to calculate how much to order generators to give back -- right?

Yet having the payback potential over the next two years is "a cloud hanging over the market," said Stout.

Of course the cloud will do little to lure needed generation, we should add.

Stout points to the repeated sale of some power before it goes to consumers. How then are the refunds to be calculated?

Enron is backing away from its plans to put in 300 mw next spring. The ISO had suggested that Enron and 13 other companies were to join in building peaking power.

Enron does expect a boost in its

risk management operations now that IOUs will be able to buy competitively - if the FERC plan is adopted in December.

Co-ops' Kelly asks important questions

Can a one-state RTO win FERC's OK long term?

Susan Kelly, attorney for non-profit firms, cited FERC's order Wednesday that finds California too small for a one-state ISO RTO.

What does that say for Florida and New York, she asked.

Would the commission accept single company RTOs, she asked.

"To me the generation market dominance issues raised by a single company RTO are too obvious to be ignored," Kelly told EEI's Washington RTO conference last week.

But the commission is in a major state of flux.

When Congress goes out will Hoecker still be there, she asked, and who will win, Gore or Bush?

If Gore wins, the big question is whether the new administration will stay the course.

If Bush wins the question is who gave more money -- EEI or Enron? The EEI audience broke up.

Both of them prefer transcos to ISOs, she added.

The industry response to FERC's seeking ideas and reports on progress produced, Kelly said, is a mixed bag ranging from serious submission to "I'm too distracted by my next merger."

For her, a poor RTO is worse than no RTO at all.

EEI attenders face RTO creation snags

Several RTOs are doubtful the details of congestion management, transmission pricing and how the RTO will be governed can be hammered out by December of next year, the date FERC picked to have America's grid operating under regional guidance.

Imbedded costs are a "tremendous" stumbling block for RTO West members, said Don Furman, vice president of PacifiCorp at EEI's RTO conference.

RTO West had learned a lot from the failed IndeGo RTO effort, it was the imbedded costs issue that killed it, he recounted. Finding a pricing system

fair to all members went poorly too.

Some members have substantial transmission investments -- Montana Power and BPA -- while others have none. Hydro power and mine-mouth coal generators in Utah and Wyoming keep generation prices far below other areas but that complicates finding a transmission pricing rate that's fair to low and high load carriers, he said.

It will be an "ugly exercise" coming to a consensus on what we are going to pay each other, Furman added.

The patchwork opening of retail markets complicates the puzzle as well.

Imagine merging in the fractured California "market" with Idaho, a state that will "leave the Union before it adopts competition," Furman advised.

Oregon, he predicted, will have open markets by the end of next year.

Joining BPA, PacifiCorp and Idaho Power in RTO West will be the for-profit transco, TransConnect, comprised of Avista, Montana Power, Nevada Power, Portland, Puget Sound and Sierra Pacific.

Its limited RTO functions, Furman explained, balance out the utilities' revenue needs with the non-profit obligations that BPA has to fulfill.

TransConnect will ask FERC for incentive rate treatment.

This is "critical," Furman insists, for TransConnect to get capital.

Outstanding issues, forging balanced congestion management rules for instance, will keep RTO West from becoming operational by Dec 15 2001, Furman predicted.

Start-up costs for the RTO are expected to be around \$140 million with operational costs around \$60 million and \$70 million.

Desert STAR (DSTAR) in the Southwest has problems balancing the needs of sovereign native American nations to irrigation districts and IOUs, munis and generators.

Transmission pricing and in particular, cost shifting, is a "big concern," said Jerry Smith of the Arizona Public Service.

They have yet to work out how to treat new and departing members, wheeling revenues and governance and new transmission investment.

They have yet to define "transmission," Smith explained.

Bill Dunn of Barker, Dunn & Rossi consultancy, explained in detail about existing contracts, especially where they expire, because the agreements have firm transmission rights (FTR) that play a central role in DSTAR's congestion management scheme.

What do you do with contracts

between two or more operators when DSTAR needs operational control over those assets but the FTRs are kept by grid owners, negotiators ask.

Can an RTO force a transmission organization to expand?

SPP's RTO struggles with creating a workable congestion management and pricing model.

Guiding creation of the Western RTO is the federal Western Area Power Administration (WAPA).

Although not jurisdictional, WAPA has filed its tariff with FERC, its sibling agency, despite several hurdles.

WAPA planners worry about who can join the RTO and what's to be done with the City of Vernon, Calif (RT, 10/26).

And what happens where RTO members not allowed to divest transmission assets?

WAPA worries about river operations, the impact of mandated reliability, penalties on project maintenance and how future marketing plans are to be developed.

The Western RTO has additional headaches in trying to compromise with California's ISO on transmission access charges while tactfully insisting on redesigns of the California market.

Western must negotiate on seams issues with DSTAR, MISO and RTO West. A major snag may be uncertainty about FERC's and state authority.

RTO West is caught up in trying to negotiate with DSTAR and the Midwest ISO on seams.

Southern Co's Bruce Edelston doesn't want an ISO structure.

SeTrans Grid, covering the Old South, has yet to decide on for-profit or not-for-profit. Georgia Power has a jointly-owned transmission system now with Georgia Transmission Corp, Municipal Electric Authority of Georgia (MEAG) and Dalton, Ga.

The others are not under FERC's authority. As soon as Order 2000 came out Southern started talking with its partners and filed to meet the FERC deadline.

ISOs don't have profit incentives for cost control, Edelston noted, and separate ownership from control operating with clunky bureaucratic-type decision making processes.

SeTrans is exploring a for-profit gridco that may not fit in with the public power thinking.

Even here differences on how to separate ownership and control cook as members want a company that can finance and own assets.

Edelston compares the initial

operations to GridSouth but have ancillary markets like PJM.

GridSouth is a Carolina would-be transco held back by the reluctance to open retail markets there.

ELCON's John Anderson scoffed at GridSouth and Grid Florida independence.

The founding utilities seek to pick board members and that violates the spirit of independence, he noted.

"Southern at least is very clear about it," he added.

They want "the opportunity to strike candidates without cause."

Anderson doesn't think that rule would foster independence at the grid organization.

David Raskin, a consultant speaking for Duke Energy, finds state regulators don't want to see transfer of assets before deregulation.

North Carolina's restructuring study was released and suggested opening markets in 2006.

South Carolina has yet to begin the process, he noted.

It didn't make "a whole lot of sense" to adopt a non-profit ISO first and then switch to a transco, he explained, so they lean toward forming an LLC (limited liability corporation).

GridSouth will not own assets at first. Creating an RTO that can buy assets is "a hard thing to do," Raskin admitted.

Although the RTO will be responsible for transmission expansion, the company might not have the cash or the ability to finance new construction, said Steve Henderson, vice president of PHB Hagler Bailly representing GridSouth.

If the RTO has to force expansion but can't pay for it, the grid operator may have to pick up the tab, he explained.

Market software hits the market

Dan Lintz, Henwood Energy Service's managing director, has launched instant energy data and data analysis, previously only available through desktop software programs or labor intensive databases. Henwood's three are available from their web site, www.hesinet.com.

- **MarketWatch** has hourly electric prices for published cash and forward sales around the world.

- **GenReporter** sells hourly detail on heat input, energy output, operation time, and SO₂, NO_x and CO₂ emissions with descriptive data for over 2,000 US

fossil fuel generators.

- **NextGen** is an online service that tracks proposed generation units across North America.

MISSION: *Restructuring Today* shows where the converging communications and energy industries are headed as they create America's biggest industry focusing especially on the opening of retail markets.

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; CLEC, competitive local exchange carrier; CTC, competitive transition charge used to recover costs stranded by customer freedom; CUBR, the Coalition for Uniform Business Rules; DG, distributed generation; dkt = dekatherm = mmbtu, is roughly = mcf; DOE, Department of Energy; DSL, digital subscriber loop; ECAR, East Central Area Reliability Coordination Agreement; EEL, 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; HVAC, heating, ventilating and air conditioning; 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; MAAC, Mid-Atlantic Area Control; 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; NARUC, National Assn of Regulatory Utility Commissioners; NEM, National Energy Marketers Assn; NERC, North American Electricity Reliability Council; NIMBY = not in my back yard; NOPR, notice of proposed rulemaking; NPCC, Northeast Power Coordinating Council; NRECA, National Rural Electric Cooperative Assn; OASIS, open access same time information system; 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; 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; SPP, Southwest Power Pool; T&D, transmission and distribution; tcf, trillion cubic feet; therm, tenth of an mmbtu; TURN, The Utility Reform Network, California ratepayer group; TVA, Tennessee Valley Authority; USDA, US Department of Agriculture; WSCC, Western Systems Coordinating Council.

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