Restructuring Today

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Wednesday June 13 2007

Public debate over changing markets unfolding

Massey, Nipper share their views

APPA and ELCON yesterday released a document that tried to answer a letter from nine former FERC commissioners that support existing markets (RT, 6/1).

Those markets aren't working well, said the two organizations in a release put out with the document.

That doesn't mean the two don't support markets. APPA and ELCON don't want to go back to "the old days" of regulation.

APPA has yet to flesh out exactly what it does want, though it's trying to do just that with its Electric Market Reform Initiative.

APPA and ELCON were among the groups advocating a switch to markets when former FERC Commissioner William Massey was serving on the commission, he told us yesterday.

Massey was one of the nine who signed onto the letter -- but his comments to us were his own and not meant to represent the other former commissioners.

APPA and ELCON admitted they supported FERC Orders 888, 889 and the more recent 890.

The supporters of markets were sick of the high prices they saw coming out of traditional regulation with its cost overruns passed to ratepayers and other inefficiencies.

But now, with a global energy market pushing up power prices, the two want changes to the system they pushed for, said Massey.

"You can't just compare what's going on in electricity markets with your fantasy about the way you wish the world was. You have to live in the real world," he added.

"We're in a global energy market with increasing commodity prices."

But the two groups deny that fuel prices are the sole cause of the run-up in prices, pointing to the disproportionate role natural gas played in such rises.

Firms in restructured states have continued to make very substantial profits even while power prices rise, APPA and ELCON noted.

Montana's effort to restructure is an example of such changes likely boosting prices, APPA's Senior Vice President of Government Relations Joe Nipper told us.

Montana had some of the lowest rates in the country until it decided to restructure -- then rates rose significantly though now it has reversed course, he added.

But fuel costs have caused prices to rise in regulated and restructured states, Massey noted.

Nipper criticized the use of LMP in markets, saying it hasn't led to more infrastructure and actually discourages it.

Why?

Generators and transmission owners get more money in congested markets.

Building infrastructure cuts into those profits, Nipper explained.

In response, regulators came up with capacity markets as the answer, layering more rules on an already complex system.

Massey disagrees.

Infrastructure was built in organized markets, he noted.

LMP is the only logical way to price power, he added, since it ensures congestion charges are accurately priced and that those price signals are sent to the marketplace.

Capacity markets are just a way to ensure that resources needed for reliability get built, Massey reminded.

SaveOn Energy opens for business in Illinois, New York

New York and Illinois have very different stands on markets but to SaveOn Energy CEO Brent Moore the similarities are what's important.

New York is often called a state where competition works, where switching numbers are good and rates ebbed and flowed with competition.

Illinois is in the middle of a debate among lawmakers and industry on the validity of rates, possible rate freezes and the future health of its utilities.

SaveOn launched their web-based energy shopping in New York and Illinois Monday and the firm expects similar results in both states.

It's heading for Ohio and New Jersey, too.

"Clearly there are hurdles and different challenges for all four states but we wanted to see how our model would perform so we picked four states that offered something different," he told us Tuesday.

"Because of the nature of our business, the geographical location is clearly not an issue and our goal is to be operating in every competitive state."

SaveOn offered power shopping in Texas since it started up in 2003 -- and now wants to add gas in the four new states.

"We're learning as we go along and were anxious to see how we do," Moore said, adding the firm wants to build on lessons learned in various states as it moves throughout the US and eventually outside America's borders.

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Here's what Connecticut's new energy bill does, does not do

Connecticut has a new energy bill on the books that includes membership in the Regional Greenhouse Gas Initiative -- a multi-state cooperative that stretches from Maine to Maryland with several goals including cutting pollution 10% by 2020.

One part of the bill was vetoed by Gov Jodi Rell, R, and would have restored about $95 million in ratepayer funds used to close budget gaps in previous years by a former governor.

"This veto by the governor is penny-wise and pound foolish," said Environment Connecticut Director Christopher Phelps.

"The governor has said she supports restoring theses funds.

"Unfortunately, when given the chance, she chose to continue the raid on the energy conservation and load management funds."

The Energy Conservation and Load Management Fund and Renewable Energy Investment Fund come from small charges on electric bills.

The funds primarily invest in energy efficiency and conservation programs that cut energy demand and save consumers money.

For every dollar invested in the efficiency programs supported by the fund, ratepayers are expected to get four dollars in energy savings.

Aside from the funding debate, the bill as signed by Rell extends the state's Renewable Portfolio Standard by 13% and 10 years and:

- Updates power firms' last resort service requirement procurements at least quarterly and eliminates one-year return to service requirements;
- Requires power firms to give residential and small commercial customers information about competitive supplies;
- Directs power firms to provide consolidated billing;
- Requires the commission to conduct a proceeding on power supplier billing transparency;
- Requires power firms submit advanced metering plans;
- Has the commission look at the possibility of different standard service plans;
- Directs power firms to submit plans for building peaking generation plants;
- Requires the commission to authorize power firms to buy and run plants offered for sale within the state if found to be in the public interest;
- Lets the commission finish interconnection standards by January 2008, and
- Requires the commission extend DG incentives.

FERC fines Cleco Power for crossing line with affiliates

A $2 million civil penalty for Louisiana-based Cleco Power yesterday brings the total under FERC's new fining authority to $32 million.

The fine resolves a probe into whether Cleco violated its code of conduct and a 2003 FERC-approved settlement agreement.

The settlement dictated a stricter code of conduct that included a call for its affiliates including power marketers and generation assets to run independently.

Cleco admitted it shared six operating employees and market information from the summer of 2003 to 2005, a fact confirmed by FERC's probe.

The firm's actions didn't cause ratepayers any harm but did violate commitments the firm made in the FERC settlement, Chairman Joseph Kelliher noted.

"That is of deep concern to the commission because it harms the regulatory process," said Kelliher.

"This $2 million civil penalty is a reminder that the commission will not tolerate such actions."

FERC is prepared to use its civil fining powers to make a culture of compliance, Kelliher added.

The fine that can't be recovered from ratepayers and Cleco agreed to work within a new compliance plan.

Cleco neither admits nor denies that its conduct violated the 2003 Settlement Agreement.

DOE and NAM chiefs team up to drive energy efficiency

With American manufacturing gobbling up some 10 quadrillion btus more than the entire nation of Japan uses, added energy efficiency offers huge potential, said Energy Secretary Samuel Bodman and National Assn of Manufacturers (NAM) President and former Michigan Gov John Engler.

Those two signed a memorandum of understanding to boost efficiency yesterday at the lobbying group's DC headquarters.

The memo includes a voluntary goal of shaving off 2.5%/year off energy use -- about a 30% boost over business as usual, Engler noted.

The goal is aggressive yet realistic since it's the best way to enhance energy security, cut costs and shrink carbon emissions.

And those prone to infrastructure NIMBYism can't complain about efficiency, he added.

The technology needed to drastically cut energy use is here and some firms such as Dow Chemical are using it today.

That firm reached its goal of cutting 22% of its energy use in 2005 -- saving $5 billion after a $1 billion investment, reported Dow Corporate Vice President of Manufacturing & Engineering Gary Veurink.

Dow plans to cut another 25% by 2015.

The chemical industry is a prime target for cuts since it uses lots of energy -- and the memo sets sights on trimming 25% in that sector in 10 years.

NAM plans to take what Dow and other leading firms accomplished to its 11,000 members, large and small.

The plan could shave off some 8-9% of the country's energy use.

That's about the amount California uses, Bodman reported.

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Survey finds scorching-hot 2006 saw DR rise and shine

The second hottest summer on record last year put demand response in the US to the test, said a report by the Lawrence Berkley National Laboratory.

"The Summer of 2006: A Milestone in the Ongoing Maturation of Demand Response" was based on interviews with utilities, RTOs & ISOs, FERC and other industry players.

The California ISO called last summer's heat wave a one-in-57 year event and heat records were shattered across the country.

Many survey respondents -- 80% in some areas -- reported that DR programs performed "very well."

System operators around the country began to see the effects of DR programs as they were called up, boosting stakeholder confidence.

DR cut load by about 1.7% or 513 mw in ISO New England and 2.3% or 1,191 mw in the California ISO, said the report.

Response rates for California's interruptible rates and Demand Reserves Partnership programs hit 83% due to large fines for inaction.

But the state's large customer critical price peaking rate only hit 56% of subscribed load on the hottest day.

The New York ISO favors a more regional approach with DR resources called upon in New York City and on Long Island more than other areas.

Statewide calls were issued twice.

NYISO's Emergency Demand Response Program had an average 43% response while its Installed Capacity/ Special Case Resources Program (ICAP/ SCR) hit 62%.

Third party aggregators continued to grow and signed up 90% of the customers in NYISO's ICAP/ SCR program.

Contrary to the report's title, some of those interviewed didn't believe 2006 was a watershed year for DR.

Heat storms were an anomaly.

But the California ISO saw peaks it hadn't predicted until 2011 -- and the heat wave in New England underscored the importance to the ISO of getting more demand and supply resources in place.

Most ISO representatives believe DR use will keep growing as those organizations have or are in the process of adopting rules to let make it so.

Michigan DR plan drives 'smart grid' thinking

The Michigan PSC decided to look at a collaborative DR program yesterday.

Although utilities in Michigan offer DR programs, customer participation is low and new technologies in the field are expected to improve the program's performance.

"The 21st Century Energy Plan released earlier this year showed the potential value of demand response programs in Michigan," said Commission Chairman Peter Lark.

The collaboration -- which by law has to include up to two dozen regulated utilities in the state -- will look at pilot programs that include the use of smart metering, various advanced technologies and real-time rate structures, he added.

The goal is to help customers cut power bills, reduce the need to build new generation and let customers use power when it's least expensive, said Lark.

A final report from Tuesday's order is expected within one year with recommendation as to whether or not the program should be expanded, said Commissioner Monica Martinez.

The MPSC authorized Alpena to raise its rates by nearly $1.3 million, about 28% less than the over $1.7 million sought by the firm.

This is the first rate hike in 15 years for the firm, said the commission, and is needed to offset higher operations, maintenance and employee pension and healthcare costs.

The monthly bill for the average residential power customer is expected to rise by about $4.03/month.

4 stories in 1 minute

Xcel recovery charge shrinks: The Michigan PSC approved a settlement agreement letting Xcel Energy add a cost recovery factor of 0.8986¢/therm from April 2007 to March 2008. This is a drop of 9.98% from last year's GCR factor. The typical residential customer using 120 mcf/year will see an annual drop of $119.64.

Mueller predicts market strength: The NYMEX July natural gas contract continued to slip yesterday, falling 5.5¢ to $7.608 after recovering from a low of $7.56, analyst Jackson Mueller reported. This marked yet another fall but the contract managed to find some support from a resurgent crude contract. With warming weather, less bearish news is expected, giving the bulls some hope that support over $7.50 may provide some semblance of strength in the coming sessions, said Mueller.

Senate energy bill wins cloture: The energy bill the Senate is debating this week got over the cloture hump Monday night, reaching the 60 needed votes, Chairman of the Energy & Natural Resources Committee Jeff Bingaman noted. Now comes the time for amendments including Bingaman's call for a national renewable portfolio standard. Once the amendments are done, the bill can be voted up or down.

Safety flyer to boost image? Nicor Gas is mass mailing 2.6 million brochures on pipeline safety to customers and non-customers throughout its service area. It's part of the "enhanced communications with the public" that helps to keep the firm's name out in the market while reminding customers and prospects the firm's focuses on service.

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Oregon's shopping numbers keep looking up

Shopping was up for the fourth straight month in May for Oregon's Portland General Electric after losing 8,000 shoppers from January to February.

The state's other utility, Pacific Power & Light, saw a steady incremental rise each month this year, rising by 1,395 from 27,284 in January to 28,579 in May.

Shopping for PGE in May stood at 18.8% up from 17.1% in April and 7.7% in January.

PPL shoppers dipped from 0.7% in January to 0.6% in May.

The state's renewable energy portfolio options program is relatively unchanged from month-to-month.

That program includes environmentally friendly power mix options.

The state saw 83,603 customers getting power from one of the portfolio options programs in May.

That's up from 81,866 in April and 78,868 in March. The year started out with 79,194 customers.

Oregon Power Shopping - May 2007

C&I Direct Access Load	Cost of Service	Market Options	Direct Access
Portland General	78.6%	2.6%	18.8%
Pacific Power & Light	99.3%	0.1%	0.6%

	Portland General		PP&L	
Portfolio Options	**Customers**	**Customer %**	**Customers**	**Customer %**
Fixed renewable	9,541	1.2%	6,509	1.2%
Renewable usage	41,395	5.3%	16,631	3.0%
Renewable future	2,215	0.2%	-	0.0%
Habitat	-	0.0%	3,899	0.7%
Habitat rider **	8,828	1.1%	-	
Time of use	1,846	0.2%	1,540	0.3%
Total choosing	63,825	8.2%	28,579	5.2%
Total eligible	782,395		545,942*	

Source: Oregon PUC Electric Rates & Planning

**As of Jan. 31, 2007*

*** Available to existing renewable customers only.*

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Abbreviations: To see a glossary of RT's abbreviations, go to www.restructuringtoday.com/about/glossary.html.

Restructuring Today (ISSN 1522-7324) is published 247 times a year on business days by **ghi** llc at 4418 MacArthur Boulevard, Washington DC 20007. Phone 800-486-8201 or 202-298-8201 and fax to 202-298-8210. One year's subscription is $487 in US funds (plus 8% sales tax in the District of Columbia). Significant discounts for site licenses that allow you to put our copyright-protected issues on your internal intranet site for others to see. George Spencer, editor& publisher; Season Crawford, marketing director; Theresa Varuolo, customer service.

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