

Restructuring Today

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How can state set retail price when LMP sets wholesale?

Mass tells IOUs to average LMP costs for small customers

Lucky to subsidize unlucky

Medium and large C&Is will pay default rates to Boston Edison and Massachusetts Electric that include the zonal pricing that will transform the New England power market beginning March 1.

Charging zonal default prices would put marketers "on better footing to serve customers in all zones than they would otherwise," the Massachusetts Dept of Telecommunications & Energy wrote, and avoid the danger that averaging LMPs could skew the market and impede the development of competition.

Small commercial and residential customers will continue to be charged averaged default rates, the DTE ruled last week, though it ordered the utilities to buy their default supply by zone so regulators can review the decision's impact.

That leaves the door open to switch smaller customers to the more market-responsive pricing after the New England wholesale market and congestion pricing

have had time to show what they can do.

The decision to pass along the full impact of LMP was split because larger customers are thought to have ample competitive choices while small customers have few.

Competitive suppliers were serving 46% of large C&I load at the end of December compared with 11% through the default service, Division of Energy Resources data show.

Medium C&Is marketers had 17% of demand versus 21% for default service.

The zonal rates replace the New England ISO's single hour energy clearing price.

The region will be divided into eight zones and hundreds of nodes, each with its own LMP.

The zone price will be the average of the LMPs within the zone. Massachusetts has three zones and four of its utilities — NSTAR's Cambridge Electric Light and Commonwealth Electric, Fitchburg Gas & Electric and Western Massachusetts Electric — sit in single zones thus aren't affected by the DTE ruling.

Boston Edison (NSTAR) is in two zones and Massachusetts Electric operates in all three so using a single price would blunt market signals to customers in higher-priced zones.

Zonal pricing creates "the potential — even likelihood" — of geographic price differences and thus differing costs of serving customers depending on where they are in those hours when transmission is constrained, the department wrote.

Since customers in the Northeast Massachusetts zone will be more expensive to serve than those elsewhere, DTE noted, utilities should buy power separately so that default rates reflect congestion costs marketers would have to deal with in serving those customers.

Marketers will have to charge customers in the northeast zone more to cover their supply costs and would target customers in low congestion zones by offering a competitive price lower than the default service rate, the DTE predicted.

Averaging is subsidy? One danger in averaging out zonal price differences is that customers in low-congestion areas would subsidize those in more highly congested zones, several commenters had noted.

Zoned default rates make sure large customers see accurate costs for electricity giving them the appropriate incentives to adjust their demand, the ISO told DTE in its comments.

Smaller customers would be confused and dissatisfied by differential rates, some marketers noted.

Website links big C&I with marketers

EnergyWindow may have its headquarters in Boulder, Colo, where energy competition isn't expected in this century but EnergyWindow and its CEO Jack Mason have a lively business linking energy buyers and sellers across the land via its website www.energywindow.com.

It offers energy-use analysis with "120 pieces of data per facility." Three of the company's 20 high-quality national clients include Lowe's Home Improvement Warehouse, TJ Maxx and Target.

Businesses spend about \$230 billion on energy a year, Mason estimates, about a third of overall expenses for some.

EnergyWindow's focus is on retail and those markets are working well in Texas, Pennsylvania and Michigan, Mason said, and badly in Illinois and Virginia.

Residential customers from Virginia frequently call EnergyWindow because they've heard about markets opening and

want to change suppliers, Mason reported, then learn their state has few marketers or none.

Mason is disappointed in having spent "a good amount of money getting licensed to operate and it was all for naught."

He praised efforts in states where conventional competition has been blocked yet some market benefits have come from auctions for default service as in Maine and New Jersey.

"The point is they used the competitive process with lots of participants and ended up with some pretty low prices."

What would make retail markets more competitive?

The SMD's fix of the wholesale market is good for the long term, Mason said, but "what's the purpose of a wholesale market if you don't deliver a product to the ultimate consumer."

A choice of short-term solutions to promote retail competition, Mason said, should include doing away with the transitional markets set up by regulators that are not market-based.

"Go to purely competitive markets where there are no transition charges or go to a more realistic unbundling that reflects actual asset costs and operating expenses."

Mason thinks state regulators should look at "the relative value of delivery assets versus generating assets" and the amount utilities spend on those parts of their business.

"There's no relationship between that and what people are being charged at the retail level," Mason maintained.

Regulated costs should have some relationship, Mason added, to "what it costs a utility to operate plus some reasonable return on assets based on their ..."

(Continued on page 2)

4 stories in 1 minute

Toshiba, Plug Power eye backup power systems:

Toshiba International is using its knowledge of uninterruptible power supply (UPS) systems in a joint marketing venture with fuel cell-maker Plug Power to explore selling backup power-supply products to firms that need quality power. Together they can find enough interest in systems that are affordable, have low emissions and are quiet. Presumably they plan to compete with the diesel-generator crowd. The concept they'll pursue is use of fuel cells to replace batteries and other forms of backup power.

AGL seeks LNG

customers now: Pinnacle LNG (AGL Resources) is looking for customers until March 14 for storage and terminal services at its LNG plant in Trussville, Ala, near Birmingham. Trussville can hold 408,400 dkt and hooks up to Southern Natural Gas' mainline. The plant is to go on line in July so customers will be able to fill tanks by Nov 1 when the winter season begins. Need data? Email crawson@aglresources.com.

IdaTech lands 3

fuel cell patents: Fuel cell maker IdaTech won three more patents recently covering a hydrogen purifier, an endplate for its hydrogen separator and an automated control device allowing for efficiency under varying loads. That brings the Bend, Ore, firm's patent total to 10 for last year, 16 total and 100 or so pending. The firm is building on a modular approach to make systems that can be tailored to customer needs (www.idatech.com).

CMS seeks power

business buyer: CMS Energy will sell almost all of its wholesale power customers and supply portfolio to Constellation Energy in a deal that makes good its vow to leave wholesale marketing. The company sold its wholesale gas book earlier this year to Sempra Energy Trading for \$18 million (RT, 1/21). CMS' Marketing, Services & Trading (MST) is refocusing on the Michigan retail market where it can "optimize the value of CMS generating assets," said David Geyer, MST president.

Website links big C&I with marketers (from page 1)

... value."

"If somebody is making a decision about whether they want to go to a competitive supplier or a supplier is trying to decide whether they want to get into a market, it comes down to supply costs."

The energy auctions in Maine and New Jersey, Mason said, used the competitive process to set transition costs.

"Who could best ascertain forward prices of electricity and the risks associated with that, the risk of dealing with defaulting clients, better than energy companies?"

Mason is taking the long view about growing his business, looking at EnergyWindow's marketing as education about the benefits of competition.

"There are still about 30 major active retail energy suppliers, a lot of potential," Mason noted, and a lot of experience to draw from in states "where things have gone relatively well."

At least for now, the success of competition should be judged more on its benefit to businesses rather than to residential customers, he said.

"People don't understand the direct

benefits of lowering business energy costs," Mason said.

A lot of EnergyWindow's customers are companies with retail establishments around the country, Mason noted, and "if their cost of services or products is decreased, local citizens are going to benefit."

A state or region enjoys a competitive advantage through deregulated markets, Mason added.

"The benefit is jobs created, jobs retained and competitive industries that will stay in place."

As more businesses learn how to spend less on energy, Mason predicted, benefits to residents will follow.

It is not yet an advantage for residential consumers to change suppliers, Mason added.

In the meantime, states should drive competition to businesses, Mason said, because they're the ones that use more energy and have more at stake.

"That's the way a market should work. Shouldn't people who have a stake be the ones motivated to try and get better prices and get more efficient," Mason asked.

Hydrogen station sales boost Stuart revenue

Stuart Energy's sales for the quarter ending Dec 31 were up 218% from the previous year's thanks in part to \$1.7 million in hydrogen station sales.

Total sales for the quarter were \$2.6 million, bringing losses down to \$7.3 million from \$7.9 million in the same quarter the year before.

Stuart Energy showed off Monday the world's first self-contained hydrogen energy system that makes, compresses and stores hydrogen and then turns it back into electricity when needed.

The hydrogen energy station (HES) uses a Ballard fuel cell to make hydrogen.

The fuel cell is actually powered by a Ford internal combustion engine that generates with ultra-low emissions.

A compressor sends the hydrogen into a Dynetek storage tank.

The HES has a high-pressure, hydrogen dispensing system for use with fuel cell-powered cars.

Powering the hydrogen-maker with a Ford generator allows the system to be used just about anywhere.

Business partners and government officials looked on as Stuart Energy simulated a blackout.

The "intelligent" HES had emergency lights on in seconds.

Then a fuel cell car was fueled and driven.

Stuart Energy did the show at its headquarters in Mississauga, Ont (www.stuartenergy.com).

Green Mountain lures skiers with vouchers

Green Mountain Energy will give ski vouchers to skiers and snowboarders at two Oregon resorts Saturday who happen to be Portland General Electric or Pacific Power customers if they sign up for one of the renewable power options offered by their utilities.

Green Mountain figures the ski crowd is sensitive to the global-warming message and will chip in not to shorten the season.

Green Mountain has gathered thousands of customers committed to cutting carbon emissions or saving salmon

who are willing to pay a small premium for green energy.

Customers of its salmon-friendly option saw the fruits of their choice with the restoration of seven salmon habitats.

Green Mountain is stepping up the wind component of its two other offerings to 20% from 15%.

Wind energy comes from Stateline windfarm on the Oregon-Washington border.

The rest of the energy comes from geothermal projects in California.

NorthWestern reorganizing

Watch van Roden

With its utility business going off into communications and HVAC, NorthWestern Corp seemed to personify the new look of utility companies, taking advantage of convergence in evolving markets.

Today, it's another utility holding company saddled with large debt from non-core, non-performing acquisitions and a turnaround plan to return to its knitting.

NorthWestern serves nearly 600,000 customers in Montana, South Dakota and Nebraska via NorthWestern Energy, formerly NorthWestern Public Service.

The stock was trading at a 52-week low of \$2.60 at midday yesterday, down more than 6% from the previous day's close. The stock's 52-week high was

\$23.64.

The parent firm bought Montana Power's grid and distribution business a year ago.

"It is absolutely essential that we maximize the value of our non-core assets," said CEO Gary Drook. Drook is a former president of Affina, a Peoria, Ill, provider of customer relations management programs.

John van Roden, who had boosted under-performing telecom and HVAC businesses at Conectiv, was named NorthWestern's senior vice president.

He will lead the company's efforts to decide what stays and what should be sold. NorthWestern had avoided energy trading believing it just didn't have enough generation available.

Yet the company built up some \$2.2 billion debt in recent years buying

unregulated businesses such as networking firm Expanets or Blue Dot, a national HVAC and plumbing company.

It's holding off investing in the two while it studies strategic alternatives such as selling them.

Not meeting expectations has been a drag on the company's overall performance, NorthWestern said.

It's closed its retail propane business, CornerStone Propane.

The Sioux Falls, ND, firm is looking to lower debt by \$200 million in the next year through sale of non-core assets and by suspending dividends to save \$45 million.

The company brought in new management to turn the company around including Drook, a member of its board since 1998, who became CEO last month.

Drook succeeded Merle Lewis who retired recently.

Ohio advocate, buyers pressure Dayton Power & Light

Dayton Power & Light (DPL) has collected \$375 million in transition charges since the beginning of 2001 and has not worked toward an "aggressive transition to a functioning retail generation market," the Ohio Consumers' Counsel told the Ohio PUC.

The OCC, Industrial Energy Users-Ohio and union giant American Municipal Power-Ohio complained in September that DPL's indecision on choosing an RTO had retarded developing of a competitive market.

The team asked the PUC to extend DPL's market development period to 2005, suspend its collection of transition charges through 2005, require the utility to charge the market price for its standard offer and pay a \$25,000/day fine until it fulfills its pledge to turn its grid over to an RTO (RT, 9/12).

And DPL's transition period is set to

end this year.

The IOU "stalled by joining MISO, then Alliance, then PJM," Robert Tongren, NASUCA president and Ohio Consumers' Counsel, noted with irritation in a phone interview in October (RT, 10/30).

"Delay, delay, delay as opposed to moving forward."

Those delays cost Ohio a healthy wholesale market, Tongren has accused, and competitive wholesale is needed for competitive retail to work.

Development delays in the wholesale market along with competitive retail-choking rate caps have stymied marketers reluctant to risk wholesale-price vagaries made worse by RTO seams issues.

Those frozen rates don't provide enough headroom, Roy Reeves told RT last fall.

He's vice president of marketing at Tustin, Calif.-based electricAmerica, a

competitive supplier that sold green power to the mass market until it revised its business plan to focus on C&Is.

"It's pretty simple. There's just not enough headroom or margin for us to be profitable in that area right now and until things change out there, we're not going to enter."

DPL has fought the charges saying it made a good-faith effort to join an RTO that was foiled when FERC ruled against Alliance. Wrong venue, DPL answers its accusers.

State regulators don't have jurisdiction over RTOs. DPL has disputed AMP's standing in the case since AMP's member munis aren't the utility's retail customers.

DPL admitted in its latest filing that it failed to meet its transmission-related commitments, the complainants said, providing the PUC the basis for deciding the case against the IOU.

Maine's Nugent makes a couple good points

Commissioner William Nugent of Maine makes a couple of good points in his letter (RT, yesterday).

Maine's motto is dirigo, I lead in Latin, and as Maine goes so goes the nation people used to say.

When it comes to load, Maine has made progress in opening up for medium and large C&I buyers.

Why then is competition all but invisible for Maine residents?

The PUC has made the political decision to make default service the service of choice for virtually all residential customers by setting up a low-price bidding process.

As commissioner Nugent says, it's a

retail market rate since would-be suppliers have to offer their best price to win.

But the broader goal here was to short circuit the ratepayer revolt that was brewing in the late 1990s, as electric bills steadily rose. It was not to lower overall prices through competition.

The Maine PUC has done what is politically correct but at the cost of discouraging authentic competition. They knew they better let big organizations shop but that the public in general would rather get insurance against price spikes even if the premium is high.

For instance, Central Maine Power has 542,000 customers. Only 11,000 C&I buyers experience shopping and benefits

of the discipline of the marketplace.

That may change a little this year with the advent of a green-power option (RT, 2/5) that recently started marketing in Maine.

But don't look for any big shift to competitive providers beyond this effort.

Nugent thinks we erred when we said the PUC keeps incumbent prices low (RT, 2/12).

They don't like the word incumbent there.

What we meant to convey is that Maine keeps default prices as low as possible to protect the public from price spikes and the benefits of shopping and other marketplace phenomena.

New York PSC wants discounts for DG

New York gas distributors are to offer attractive gas prices to C&Is who operate gas-fired DG.

In fact, they may extend the program to residentially by January.

The PSC voted yesterday to require gas utilities to file within 90 days C&I DG rates that reflect DG-customer use profiles.

The rates will remain in place for three years as the LDCs collect data on the actual costs of serving DG customers including gas-use patterns, utility operating costs, effects on power and gas system reliability and electric interface issues.

The New Jersey Board of Public Utilities took a step in the same direction when it OK'd last month a special DG rate to save up to half the fuel costs for

residential and commercial customers in New Jersey Natural Gas territory if they install DG (RT, 1/10).

The PSC approved as well a three-year National Fuel Gas (NFG) pilot that will provide \$3 million in loans with a six-year payback and advice to help customers in its western New York territory install onsite power.

The loan money will finance about 30 projects.

The pilot is supported by the Buffalo-Niagara Partnership and the Erie County Dept of Environment & Planning and is the first in the state to focus on DG development.

NFG's share of the loan funds comes from its shareholders who bear the risk if loans aren't paid back.

NEMA board picks focus for 2003

NEMA will stay focused on market transparency, liquidity and openness this year, its board decided yesterday.

"CEOs from virtually every segment of the industry," NEMA Chair Bob Dickerman noted, agree that clearing solutions, credible price indices, unbiased public education, competitively neutral default service rates, uniform data protocols and the swift implementation of standard wholesale and retail market designs were critical issues.

Dickerman is president of Semptra

Energy Solutions.

NEMA members are working on creating neutral wholesale price indices they'll report on in April at the annual meeting in Washington.

The group's retail mission will be to "ensure that local prices-to-beat are set fairly, that consumer shopping credits fairly reflect utility prices for competitive services and that utilities stop exercising monopoly powers in competitive markets as soon as possible," said President Craig Goodman.

FCC's Powell to lose on UNE-P vote

The FCC is expected to vote 3-2 today against Chairman Michael Powell's proposed rules that would repeal regional Bell obligation to share local facilities with smaller competitors as required by the 1996 Telecommunications Act.

Powell is backed by the Bells and opposed by long-distance carriers such as AT&T and WorldCom, as well as by consumer groups and many states.

The majority favors giving states more power to keep on the path of telecom deregulation. Powell was reportedly preparing a dissent to a proposal from Republican Commissioner Kevin Martin.

Commissioners could still vote to reduce the Bells' obligation to lease capacity to competitors providing high-speed data service to businesses, industry sources said.

Pennsylvania OKs ISO's SMD software

The New England ISO's Standard Market Design software for buying and selling wholesale power won independent, third-party certification from PA Consulting.

The management, systems and technology consulting firm was hired by

the ISO to test six key market software modules to see if they work as they should applying the grid manager's new Market Rule 1, the Nepoch System operating procedures and Nepoch manuals.

The ISO SMD market opens March 1.

Mass AG wants FERC to block price plan:

Massachusetts Attorney General Tom Reilly asked FERC yesterday to delay the start of a new power-pricing program in New England, claiming it could raise electric rates for consumers in the Boston area. ISO New England has proposed use of a ceiling or benchmark for bids submitted to it by power plants in three designated areas - greater Boston, southwest Connecticut and the rest of Connecticut.

Generators in those areas would be able to request payment for running at prices that are above the levels set by the ISO but the units would have to justify the increase. The threshold is double the price of power and could lead to higher costs for consumers, Reilly calculated, and would limit benefits of competition that new generators in the region could provide.

4 Calif lawmakers

would block LMP: Four California state senators have asked the ISO not to implement LMP as part of its new market design until it performs a cost analysis. "Why is the ISO proceeding with a multi-million-dollar market design if its effect on electricity consumers is unknown," the signatories asked in a letter to ISO Chairman Michael Kahn. The letter is signed by Senate President pro tem John Burton, D-San Francisco, and Sens Debra Bowen, D-Marina Del Rey, Joe Dunn, D-Santa Ana, and Byron Sher, D-Stanford. The senators asked that all tariff filings and expenditures be halted and that they be given an opportunity to review the ISO's

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