EXHIBIT NO. _______ (WAG-44)
DOCKET NO. UE-031725
2003 POWER COST ONLY RATE CASE
WITNESS: WILLIAM A. GAINES

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	Docket No. UE-031725

REBUTTAL TESTIMONY OF
WILLIAM A. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 13, 2004

Monday, January 16, 1995 ■ No. 656 ■

CLEARING UP
NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

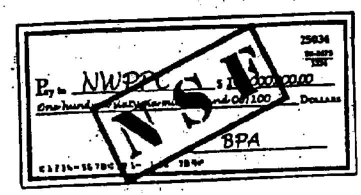
Inside. . .

 The report on prices heads up column one on Page 2.

The Week in Summary

[1] BPA Asks NWPPC for F&W Priorities; PNUCC Opposes Council Fish Plan

Bonneville Fish and Wildlife director Bob Lohn last week asked the Northwest Power Planning Council to help prioritize fish recovery projects, saying otherwise the council's latest salmon recovery program would bust BPA's fish budget. Lohn also called for more accountability from the Fish Passage Center, which he said often makes costly water allocation requests without clarifying which state and tribal fish agencies support those decisions. Also at the Boise meeting, utilities and industries formally announced their opposition to the council fish plan. *The council's fish woes continue at [16].*



[2] BPA Full-Requirements Customers Look for an Out in August 1995

Western Oregon Electric Co-op, a full-requirements customer of BPA, announced last week it has signed a 10-year power purchase agreement with PacifiCorp to serve its 7 aMW load beginning in July 1995. Canby Utility Board, a muni with only 4,000 mostly residential customers, issued an RFP for a two-year full or partial requirements contract, to begin in August. BPA managers say they have not yet decided how to deal with requests from utilities to add new firm resources which now exceed the official White Book deficit of 210 MW in operating year 1995-96. *The open market beckons Western Oregon at [20] and Canby at [21].*

[3] BD on Fish $: Dumping Preference; Exit Fees; Transmission Charges

The Clinton administration, antsy that fish-fixing costs are making BPA power unable to compete, is looking at ways to keep regional utilities from getting energy free of BPA fish costs. Sources say the administration may try to remove BPA marketing constraints and eliminate public and regional preference and the residential exchange and/or to charge exit fees or transmission surcharges to get more money. Old power sales contracts with seven-year exit provisions might stay in place. *B'DOWN details, as well as the story of the sixth vote on the Council fish plan, are at [14].*

[4] Citing Ex Parte Rules, Puget Pulls Out of Wind Project

Puget Power's long battle with its Washington regulators over prudency had at least one collateral casualty --the IOU's participation in the Columbia Hills wind project. The IOU said *ex parte* rules made it impossible

THE CLIPS

THE WALL STREET JOURNAL WEDNESDAY, JANUARY 11, 1995

Natural-Gas Prices May Be Held Down By 'Just-in-Time' Delivery Techniques

By CALEB SOLOMON
Staff Reporter of THE WALL STREET JOURNAL

HOUSTON – New and more fluid ways of moving natural gas are taking hold across the U.S., which should lead to flat or even lower prices for consumers.

It's the gas industry's equivalent of "just-in-time inventory." And the changes are one reason that, during the brief cold snap last week across much of the U.S., natural-gas-futures prices actually fell. Taking advantage of deregulation and the dizzying growth of new marketing arrangements and delivery systems, many gas utilities, industrial buyers, pipeline companies and middlemen are finding ways to draw gas in cold-weather emergencies without paying large premiums for long periods of time.

For instance, brief and frigid weather last month sent gas prices up 12% in two days and then down again just as quickly when balmy temperatures returned. In the past, prices may have stayed up long after temperatures rose because the delivery system was less flexible. But that's changing now that gas flows more readily from more sources during periods of peak demand and now that supplies can be replenished faster. The amount of imported natural gas from Canada through new pipeline systems, for example, has risen sharply and has kept a lid on prices.

"It may sound like a contradiction in terms, but prices are more volatile in the near term and more predictable and stable over the long run," said Carter Funk, vice president of CNG Energy Services Corp. in Pittsburgh, the recently created gas-marketing subsidiary of Consolidated Natural Gas Co. "If you get a cold spell in January, prices will go up. And when that goes away, they'll drop just as fast."

Donald Ratajczak, director of the Economic Forecasting Center at Georgia State University, notes that these changes should have a major impact on future inflation trends. For years, economists have stripped out energy prices when making inflation forecasts because prices were viewed as uncontrollable and unpredictable.

"All of a sudden," says Mr. Ratajczak, energy doesn't matter. Now, he and others believe that prices of natural gas – and crude oil, for that matter – will remain flat or drop. "It looks like energy could be a factor pulling down or restraining inflation rather than contributing to it," Mr. Ratajczak says.

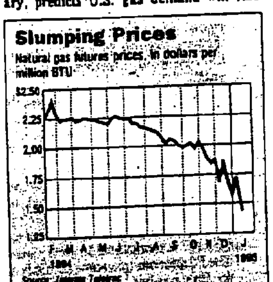
The Labor Department reported yesterday that the producer price index – a measure of inflation on the wholesale or producer level – rose 0.2% in December and 1.7% for all of 1994. But energy prices, which include natural gas, were down 1.5% in December and up just 1.6% for all of 1994.

H. Laurance Fuller, chairman of Amoco Corp., the largest holder of gas reserves in North America, says, "We're not looking for much, if any, increase in natural-gas prices." Mr. Fuller says the average annual price of gas sold from wells will average around $2 per 1,000 cubic feet for some time.

So far this winter, prices have been even lower because relatively warm weather has curbed heating demand. Gas trading at Louisiana's Henry hub, a major pipeline intersection, sold for about $1.50 yesterday.

A decade ago prices were 25% higher, not even adjusting for inflation, and many forecasters predicted prices would double by now. Even three or four years ago some industry executives predicted today's prices would be closer to $3 because of potential scarcity of supplies.

But Charles Rampacek, president of Tenneco Inc.'s gas-transportation subsidiary, predicts U.S. gas demand will rise only 1.3% a year through 2010 and says "there should be plenty of production to meet demand." One reason is that new production and exploration technologies enable companies like Amoco to bring gas up from under ground more cheaply. Also, he says, the more efficient distribution system requires fewer gas reserves to meet demand.



In the past, gas buyers paid a hefty price to pipeline companies to ensure they could get gas during peak demand days when temperatures dropped sharply. In turn, pipelines secured long-term gas supplies from numerous gas fields.

That's all changing. Deregulation has taken pipeline companies out of the business of owning the gas moving on their systems and made them just transporters that ship someone else's gas as cargo and charge fees like railroads do. Buyers like utilities and factories must find their own supplies, which has also become easier because of new rules that allow buyers to purchase gas and move it from one pipeline to another with ease.

"There's a revolution going on with the customer," says Larry Bickle, chairman of Tejas Power Corp. in Houston. "Now folks are convinced the gas is there and they don't need to prebuy that insurance."

Tejas is in the vanguard of building "hubs" at key pipeline intersections that draw gas not just from wells but also from storage facilities, which are generally underground salt caverns that are hollowed out. Gas buyers can rent space in the storage fields, inject them with gas in the off-season when prices are cheaper, and take it out in the winter.

The storage fields act just like gas wells and provide new sources of gas supply. Mr. Bickle says that more than 100 hub projects have been announced in recent years, many closer to where gas is burned, which will allow the commodity to move faster when demand peaks.

"If you're in New York and want a hamburger, you don't have to go all the way to Texas to buy a steer. You go to the local butcher shop. That's how gas will work," Mr. Bickle says.

THE WALL STREET JOURNAL WEDNESDAY, JANUARY 11, 1995

Link Between EMF, Brain Cancer Is Suggested by Study at 5 Utilities

But Industry-Funded Work Finds No Leukemia Risk, Unlike Earlier Research

By JERRY E. BISHOP
Staff Reporter of THE WALL STREET JOURNAL

A possible link between brain cancer and exposure to the magnetic fields that surround power lines and electrical equipment was found in a huge, industry-supported study of workers at five electric utilities.

The association between brain cancer and exposure to an electromagnetic field, or EMF, was stronger in the new study than in any previous population studies. However, unlike previous studies, the new one failed to find any increased risk of leukemia associated with EMF exposure.

Because their results were at variance with earlier studies, researchers were extremely cautious about drawing any conclusions.

"It is disappointing that our results don't provide a clearer picture [of the cancer-EMF link] when combined with the previous studies of electrical workers and particularly electric utility workers," said the two University of North Carolina epidemiologists who carried out the study. It was funded by the Electric Power Research Institute, Palo Alto, Calif.

Moreover, the study doesn't "resolve the fundamental question of whether magnetic fields cause cancer," said the two researchers, David A. Savitz and Dana P. Loomis.

Nevertheless, the study is likely to intensify the long-bubbling debate over whether EMF exposure can cause cancer. Not only was the study sponsored by the electric utility industry itself, it also involves the largest group of workers – 139,000 – yet studied for the effects of EMF exposure.

Summaries Are Released

Publication of the new study in the American Journal of Epidemiology, originally scheduled for today, was delayed by the journal until next week and copies of the formal report were unavailable. However, both the Electric Power Research Institute and the University of North Carolina released summaries of findings.

According to the summaries, the overall death rate from cancer was only 86% that of the general population, reflecting the fact that employed workers usually are healthier than the general population. Of the 139,000 employees who had worked at the five utilities between 1950 and 1986, the researchers counted 20,733 deaths.

Because of hints found in the earlier studies, the researchers focused on the deaths from two relatively rare types of cancer, leukemia and brain cancer. During the 36 years, there were only 164 deaths from leukemia and 144 from brain cancer.

It was when the researchers compared the rates of brain cancer among groups of workers according to their exposure to the magnetic fields that they found indications of an increased risk. Men who had worked long periods in jobs where exposure to EMF was the highest had 2.3 times the risk of dying of brain cancer as men who worked in utility jobs where exposure was the lowest, according to the summaries.

Both the Electric Power Research Institute and the university, however, emphasized that, contrary to earlier findings, the new study failed to find any indication that the risk of leukemia increased with higher exposures.

Earlier Findings on Leukemia

In contrast to the new study, a 1994 report of a similar study of workers at one French and two Canadian utilities found that those with the highest exposure to EMF ran a risk of dying of leukemia about 12.4 times higher than those who had lower exposures to the fields.

A third study, this one of workers at Southern California Edison Co., published in 1993, failed to find any increased risk of leukemia or brain cancer.

The two North Carolina researchers said it wasn't clear why the results of the studies varied so markedly. They noted, however, that it is impossible to know accurately how much exposure to magnetic fields each worker had over a period of many years. Each study used a different method to estimate past exposure.

In their study at the five utilities, the researchers estimated each dead worker's exposure by measuring the current exposures in a wide variety of utility jobs and then counting the amount of time each worker spent in the various jobs over the years. Cable splicers, linemen and electricians, for example, are the jobs with the highest exposures today, while managers and administrative workers have the lowest exposures.

The researchers also noted that their own study relied on death certificates to determine cause of death rather than medical records as in the other studies. Death certificates are often misleading in stating the actual cause of death.

The Electric Power Research Institute emphasized that the results "have not clarified the relationship between EMF exposure and cancer." The "inconsistencies" among the various studies, it said, "underscore our limited understanding of the risks of exposure to EMF."

The five utilities that participated in the North Carolina study were Carolina Power & Light Co., Virginia Electric Power Co., PECO Energy Co., the Tennessee Valley Authority and Pacific Gas & Electric Co.

Monday, February 13, 1995 ■ No. 660 ■

CLEARING UP
NORTHWEST ENERGY MARKETS

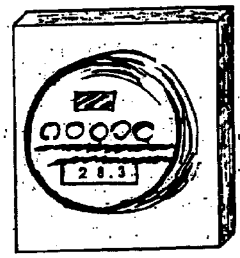
Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] BPA Proposes 5 Percent Average Rate Increase; Contract Talks Stall

BPA issued its "preliminary initial" rate case proposal last week, calling for an aggregate increase of 4.4 percent for preference customers and 5.4 percent for DSIs. Meanwhile, the logjam in contract talks continued: the latest is a customer proposal to stipulate a rate surcharge for the first year of the new rates, until new contracts can be implemented together with tiered rates on Oct. 1, 1996. The proposal would require unanimous agreement among parties to the rate case. But delay is on the agenda of one likely party to the case, the Northwest Environmental Defense Center, which filed a lawsuit last week asking the 9th Circuit to block talks on contracts, the Pacific Northwest Coordination Agreement and the Canadian Entitlement until public processes can occur. *Customers beg BPA for a new business relationship, while enviros cling to the old at [27].*



[2] BPA Customers Want to Add 450 MW of New Resources

BPA customers have filed amendments to their firm resource exhibits indicating they would like to take approximately 450 MW of load off BPA beginning in August 1995. BPA's White Book deficit is only 210 MW, and it has begun saying no to would-be holders of new resources. But bringing on new resources is an issue in contract negotiations, and utilities may ultimately be allowed to diversify this year or next. *EWEB, Forest Grove and Flathead Electric Co-op discuss their plans at [28].*

[3] Early February Rainfall Pushes Runoff Forecast to 99.6 MAF

Early February proved to be wet and warm, boosting streamflows and depleting some snowpack. But February's final runoff forecast remained at 99.6 million acre-feet, or 94 percent of average, on the Columbia River at The Dalles. BPA hoped a cold snap expected last weekend would allow it to use the repair-related draft of Coulee to serve regional load. With reservoirs at 39 percent of full, BPA continues to buy power, and has committed to purchases of $161 million so far this water year. *Water supply jumps to [29].*

[4] Council Mends Fences And Reopens F&W Plan for Science Inquiry

The 1995 edition of the Power Planning Council emerged from a half-day retreat in Pullman last Wednesday with enough mutual admiration to vote

THE CLIPS

THE NEW YORK TIMES, FRIDAY, FEBRUARY 3, 1995

A Makeover for Electric Utilities

Power Industry, Facing Competition, Struggles With Change

By PETER PASSELL

News Analysis

The prospect of declining utility bills, along with the examples of successful deregulation in airlines and long-distance telephones, is powering a drive to introduce real competition to electricity production around the country.

With many power users capable of going around the system to cut costs, this revolution already brewing in several states seems inevitable and, to many economists, quite desirable.

But transforming "this staid, old industry into a nimble giant," as Irwin Stelzer, director of regulatory policy studies at the American Enterprise Institute, put it, will require wrenching changes and challenge a variety of interests, from environmental groups to utility stockholders to traditional power plant builders.

"We're cutting through 100 years of sedimentary layers in trying to make the market for power work better," said Gary J. Lavine, senior vice president at the Niagara Mohawk Power Corporation in Syracuse.

The central quandary is that much of the existing investment in electrical power — on everything from bread-and-butter coal and nuclear plants to exotic windmill farms and high-efficiency light bulbs — is more expensive than the cost of starting over with a clean sheet of paper. As a result, utilities contend, the only way to provide big electricity savings quickly would be to deny investors a fair return on hundreds of billions of dollars of financial commitments that with hindsight should never have been made. That, they say, would be unconscionable.

"Regulators made promises to investors, and government has a moral obligation to honor them," said Alfred E. Kahn, an economist at Cornell University and a former chairman of the New York Public Service Commission.

Other problems flow from the same central challenge. The big industrial users of electricity would be in a position to "cherry pick" inexpensive sources of power, leaving small business and residential consumers with even higher monthly bills to support the existing grid.

Similarly, competition could undermine energy efficiency efforts that had been shielded from market forces. "Conservation doesn't sell unless it pays back the cost in a year or two," said Ralph Cavanagh, an economist at the Natural Resources Defense Council.

Nearly all electric utilities are state-regulated monopolies, and have been so for most of this century. Electricity was a "natural monopoly," it was assumed, where a single enterprise could produce and distribute power more inexpensively than many different competitors for ... That meant

... tect consumers from price gouging. In turn, investors needed laws guaranteeing a fair return on investments deemed necessary and prudent.

The idea of realistic alternatives is relatively new. The economists Paul Joskow and Richard Schmalenzee of the Massachusetts Institute of Technology made the case in the 1970's that power generation, in contrast to long-distance transmission and local distribution, would benefit from new entrants. Congress inched in this direction after the energy crisis hit, requiring utilities to buy power from independent producers at what was assumed was the relatively high "avoided cost" of producing it themselves from a new power plant. That led to some extravagant investments in futuristic but costly alternatives like windmills and solar energy.

But today new power plants can be much less expensive than many old ones. Most utilities get the bulk of their power from large coal and nuclear operations at costs that are two or three times as high as power from smaller, more efficient plants that can both make use of waste heat and take advantage of the current glut of natural gas. Thus neither the utilities nor their customers are currently getting the windfall from better technology and cheaper fuel.

The dam may be about to break, though. In upstate New York, the Alcan Aluminum Corporation won permission to buy electricity directly from a nearby independent supplier building a gas-fired plant. Long Island is pressing a more radical approach, hoping to create a government-owned power company that could buy electricity from independents at a third of the price charged by the Long Island Lighting Company.

Meanwhile, California state regulators, the source of much of the innovation in the field, are considering the most systematic assault on the retail electricity monopolies. Egged on by large industrial electricity buyers, the California Public Utilities Commission proposed last April to free power generation from regulation.

And the resulting controversy, which may force California to slow its timetable, is a preview of what is likely to happen in New England and the mid-Atlantic states, where there are also high electricity rates and many price-sensitive customers.

Some environmentalists fear that worthwhile goals will be lost when short-term bottom-line calculations rule. For instance, the failure of consumers to invest in cost-effective energy conservation ranging from commercial lighting to home insulation led regulators in several states to allow utilities to subsidize individual improvements and then pass on the cost as a surcharge on all consumers' bills.

... possible in a world of free markets, said Mr. Cavanagh of the Natural Resources Defense Council, unless the commission added systemwide "green charges" to the cost of using the utility wires.

At the same time, stockholders in the regulated utilities have good reason to fear a full-scale deregulation of power production. Consider Southern California Edison, which serves much of the huge Los Angeles-Orange County-San Bernardino metropolitan region outside the city of Los Angeles itself from its home base in Rosemead. It is one of the three big California utilities caught between the rock of old commitments to high-priced electricity and the hard place of low competitive prices.

> **From moves for deregulation, controversy.**

Southern California Edison is locked into long-term contracts from independent producers of everything from co-generation plants to geothermal operations to wind farms that oblige the utility to buy a third of its power at nearly 9 cents a kilowatt-hour. And it is allowed to charge roughly 5 cents a kilowatt-hour to earn a fair return on its own investment in power production, including part of its investment in nuclear operations. All told, the cost of power to Edison today is about 7 cents a kilowatt-hour.

Thus Edison estimated that it would take a one-time payment of $9.3 billion — or the equivalent plus interest for many years — to honor its long-term power contracts, provide acceptable dividends to its stockholders and still sell power at a competitive price that could be as low as 4 cents.

That $9.3 billion is double the stockholders' stake in the company. Unless regulators or the courts permit Southern California Edison to break its contracts with high-cost independent suppliers or pass on much of the $9.3 billion bill to captive customers, the utility would be technically bankrupt. While no one expects the state to push its utilities to the wall, the economic consequences are real.

And Southern California Edison is not alone. William Hogan of Harvard University's Kennedy School of Government estimates that the transition cost for electric utilities nationwide could exceed $200 billion, or more than double the total equity in the industry.

Regulators could — and those in both California and New York have hinted that they would — pay off the utilities by imposing hefty surcharges on the use of the utilities' distribution systems. Peter Bradford, the recently retired chairman of the New York Public Service Commission, envisions a "grand bargain," in which stockholders would be assured most of their money that way in return for cooperation in restructuring the industry.

A heated debate has already begun over whether a restructured power market should look more like today's long-distance telephone market, with big companies wooing individual retail customers, or like today's commodities exchanges, with anonymous buyers and sellers setting the competitive price paid by all.

But even the grand bargain is no panacea. For one thing, it would defeat what economists see as a primary objective of deregulation. "Prices should fall to reflect actual costs," said Mr. Stelzer of the American Enterprise Institute. Otherwise, he said, consumers will continue to have perverse incentives to use the wrong sources of energy.

More to the political point, shuffling the "stranded costs" to the distribution system would not satisfy customers who care how much they pay, not whom they pay. It would not stop big industrial customers from threatening to move to lower-cost states if they are denied inexpensive power. Nor would it inhibit the push for municipal electricity companies able to bypass the regulated monopolies.

Is there any way through the thicket of competing interests? To Mr. Bradford, all this points toward a compromise in which utilities are paid part of their stranded costs, but "not 100 cents on the dollar." Utilities may have a strong moral case for full compensation, he says, but the only realistic hope is to allow "a lot of room for judgment."

Supply & Demand

[22] Clark Gas Supply RFP Yields Offers Totaling 775 MMBtu/day ■ *from [2]*

Clark Public Utilities received 29 responses to its request for proposals for natural gas supply, transportation and fuel management services for its 248 MW CT, known as the River Road Generating Project.

The proposals represent an aggregate total of over 775 million Btu/day--18 times the project's need, according to Economic and Engineering Services, Inc., Clark's consultant for the project.

"This marked the first attempt by an electric utility in the Northwest to acquire long-term fuel supplies for a major generating plant on such an open and competitive basis," said Gary Saleba, EES senior vice president. "From this set of proposals, Clark will most certainly obtain a low cost, highly reliable and flexible natural gas fuel source for the project that will ensure its cost effectiveness well into the next century."

'From this set of proposals, Clark will most certainly obtain a low cost, highly reliable and flexible natural gas fuel source'

Sixteen bidders offered supply, transportation and fuel services; three offered only fuel services; four supply only; five supply and transportation; and one offered only transportation. Bidders included Washington Water Power, Washington Natural Gas (transportation), Williams Trading Services, Western Gas Resources, Texaco Natural Gas, Union Pacific Fuels, Enron and many others.

Rather than a fixed price and escalator, EES said bidders embraced a variable spot market price concept for 15-year agreements whereby gas supply prices would be tied to a combination of Canadian and Rocky Mountain spot indices. Most bidders do not currently have reserves or transportation to serve the project, but would acquire it after Clark commits.

In addition, few of the proposals have long term transportation capacity on Northwest Pipeline, tending instead to offer a portfolio of shorter term capacity releases. All would pass transportation through at cost; and some offered a fixed discount from NW Pipeline's tariff rates.

The bidders required a minimum load factor of between 80 percent and 100 percent, and some offered zero percent during May and June. Charges for fuel management services were offered either on a monthly or yearly fixed basis, or on a dollar-per-MMBtu basis. Some proposers offered an arrangement in which Clark would pre-purchase gas in lump sums using tax exempt bond financing.

After an analysis, EES will recommend a shortlist, probably by the end of the month. Contracts should be ready for signing by the end of the year *[Ben Tansey]*.

[23] Cowlitz Project to Be Scaled Down as Output Goes Begging ■ *from [8]*

Unable to find a customer for output from its state-certified 395 MW Cowlitz Cogeneration project at a mill in Longview, Washington, Weyerhaeuser is planning to scale down the facility and is looking for another potential partner for the project facility which so far has been a joint venture between it and Mission Energy.

Mission Energy is "potentially still involved in the project," said Weyerhaeuser project manager Corey Pulfrey, but he said the company is talking to other developers. "We are stepping back and taking a high level look," at the project, and seeking out a number of opinions on feasibility before taking off into a full development effort, he said.

Mission Energy's Doug Ferber acknowledged that so far there has been difficulty finding a customer for the project's output, and that Weyerhaeuser has been talking to other developers, but he said, "We understand where we are at with Weyerhaeuser and are not worried about it." Mission is a subsidiary of SCEcorp, the corporate parent of Southern California Edison.

Weyerhaeuser is contemplating new configurations for the project, including reducing it to about 200 MW or breaking it into eight separate, 40 MW CTs.

The states siting council approved a site certification agreement under an expedited process for the project in December 1993. When it was approved, Weyerhaeuser said it was critical that the power be signed up by the second quarter of 1994.

Pulfrey said there are number of reasons momentum slowed, none of them on the demand side. He said potential customers are rightfully concerned about signing long-term contracts in the face of a near-term switch to retail wheeling. The other major source of uncertainty is over Bonneville and what kinds of prices and services it will be offering. Pulfrey said project power has been offered at a price at or below BPA's five-year PF projections.

"Weyerhaeuser is optimistic that the project will be developed," Pulfrey said, but many factors are "out of our control." He said it is "a reasonable assumption" that the company would scrap the project if a viable arrangement cannot be found by the end of the year.

Weyerhaeuser has pitched the project has "the most thermally efficient project in the Northwest," a west-side project that would be a net gain for the environment. The Power Planning Council's Jeff King called it the "the kind of project you'd like to see go ahead."

EFSEC manager Jason Zeller said the certification agreement is good for five years, but developers must submit a formal status update after 18 months, which in Cowlitz's case means this August, he said *[B. T.]*.

[24] McCullough Releases Two New RFPs for Unnamed Clients ■ *from [10]*

McCullough Research has issued two new requests for proposals for unnamed, non-utility clients. The Portland-based consulting firm said it has an Oregon client interested in a 120 MW electric power supply at an estimated 95 percent annual load factor starting October 1, 1996. A second client, this one in Washington state, seeks 80 MW with the same conditions.

Most other options, such as type of resource, are left open. However, the clients do want bidders to address capacity, energy and reliability issues such as spinning resources, standby service, and interruptibility, and operating services such as voltage support, frequency control and control area services.

McCullough said the client seeking 120 MW produces a high-temperature by-product at the rate of about 1700 tons per day. This molten material is quenched in water. "With appropriate application of innovative technology, there is a possibility of energy recovery from the water and steam produced by the quenching." McCullough is encouraging bidders with expertise to submit ideas for this possible cogeneration opportunity.

Responses to the RFP are due by May 15, 1995. McCullough can be reached at (503) 771-5090 *[B. T.]*.

Independent Power Producers See Window For BC Projects

BC Hydro's Request For Proposals to provide between 200 MW and 300 MW of electricity to help the Crown corporation meet its future energy requirements has resulted in 48 submissions for projects from the province's independent power producers. Premier Mike Harcourt announced the RFP response in the BC Legislature and said the proposals total 3,305 MW.

Natural gas-fired plants accounted for 13 proposals and totaled 2,600 MW of capacity, while 16 proposals for hydroelectric plants had an aggregate capacity of 271 MW. The remaining proposals involved woodwaste generation and conservation projects.

BC Hydro is now evaluating the submissions and said a shortlist will be issued as quickly as possible. A BC Hydro spokesman said because of the highly-competitive nature of the submissions, it wasn't releasing details of the individual proposals.

But BC Hydro did say that all the proposed projects are located in British Columbia. Five gas-fired projects are proposed for Vancouver Island while seven are on the Lower Mainland. The proposed hydroelectric projects are in the Lower Mainland, on Vancouver Island and in the Kootenays. While the RFP was open to bids for projects outside the province, no proposals were received from Alberta or the US, the utility noted.

In issuing the RFP, Hydro established a price guideline with a ceiling of 3.8 cents/kwh. The proposed projects must be operational by Oct. 1, 1998.

Independent Power Association of BC spokesman Dave Austin said Hydro's own demand projections suggest that the utility will need about 250 MW of new capacity every 18 months for the next 10 years. Hydro added 42,000 new customers last year as the province's population continues to grow at about twice the national average *[Brian Lewis]*.

Courts & Commissions

[25] Northwest Pipeline Asks to Construct Line to Serve Washington Nat Gas

Northwest Pipeline has asked FERC for authority to construct and operate nearly four miles of 12-inch pipeline loop off its existing Olympia lateral in Thurston County, Washington *[CP95-274-000]*. Northwest said the new loop will allow it to ship an additional 13,370 Dth per day to Washington Natural Gas Company.

Northwest estimated the new loop line will cost about $2.6 million, which would be reimbursed by Washington Natural in the form of a facility cost-of-service charge over 9 years. Motions to intervene or protest the filing are due May 13 *[M. T.]*.

[26] PGE Offers Market-Based Pricing to Industrials ■ *from [9]*

The OPUC next week will consider a PGE tariff offering market-based pricing options to its largest industrial customers on an experimental basis. "The name of the game with deregulation and competition is to offer choices that will help our customers," said PGE's Dave Heintzman. "If this helps them to be more successful, then we will be more successful."

Only customers with a load of 10 MW or greater will be eligible. The tariff will give them an opportunity to purchase power at prices based on several different elements.

The options include a market driven price, based purely on the actual market cost of power plus a 12 percent mark up. Also available will be a fixed-price option quoted at the beginning of each year by the company in terms of price per KWh. The third option is hybrid of the two in which the price is based on the company's quarterly avoided costs filings, allowing it to reflect the market more than the annual fixed option, but also offering a fixed quarterly price.

The market-driven and quarterly options are both adjusted for line loss and wheeling, and are subject to the 12 percent premium. The fixed price excludes the premium.

Heintzman said PGE does not yet know how many of its 15 eligible customers will sign up, though some have definitely expressed an interest. Those taking the plunge will be asked to sign up for at least five years, though they will be allowed to switch to another tariff after three years if they so desire. "We are looking for commitment," Heintzman said.

PGE's roughly 180 large commercial and industrial customers account for about 23 percent of the IOU's load. Only seven of those are considered "large industrial" *[Ben Tansey].*

[27] Three Northwest Hydro Projects Give Up Permits

Three hydroelectric projects in three Northwest states recently gave up preliminary permits issued by FERC to explore feasibility of building the projects.

The projects are: the Tumalo Irrigation District's proposed Bend Canal project on the Deschutes River in Oregon *[P11399-001]*; the Rock Creek Hydroelectric Company's Rock Creek project in Cowlitz County, Washington *[P-11415-001]*; and Dike Hydroelectric Partners Incorporated's Dike project on the Snake River in Elmore County, Idaho *[P-11422-001]*. Other parties can apply for the permits if they so desire, beginning in May *[M. T.]*.

Montana Power Seeks License for Madison-Missouri Project

Montana Power has filed with FERC seeking a new major license for the combined Madison-Missouri hydroelectric project *[P-2188-030]*. As FERC has requested, MPCo combined nine existing projects on the Madison and Missouri Rivers in Gallatin, Madison, Lewis and Clark, and Cascade Counties in Montana to form a single project so FERC can consider effects of powerhouse operations on entire river basins.

FERC said it will draft a full environmental impact statement on the application, and invited interested parties to submit comments, due July 20 *[M. T.]*.

[28] FERC Restricts Ramping Rates at IPC's Milner Project

FERC on March 31 ordered owners of the Milner hydroelectric project on the Snake River in Idaho to restrict operations at the powerhouse in order to protect downstream anglers *[P-2899-056]*. As originally licensed, project operators had to limit the rate at which they increased flow, called the "ramping rate," such that elevation of the river downstream of the project would change no more than 1 foot per hour.

But studies conducted by the project's owners--Idaho Power Twin Falls Canal Company, and North Side Idaho Canal Company, Ltd--concluded that several factors could cause the project to exceed that limit, including several instances when winds would actually push the Milner reservoir over the dam.

The owners, and the state and federal wildlife agencies they consulted, concluded that the most restrictive factor for project operations was the protection of wading anglers downstream. They determined a maximum ramping rate of 1,200 cubic feet per second (cfs) in any given hour whenever project flows exceed 5,000 cfs, and a ramping rate of 300 cfs in any given quarter-hour when river flow is less than 5,000 cfs.

FERC approved the ramping rates, but ordered the owners to continue studies at the project on the effect of ramping rates, and to submit follow-up reports *[M. T.]*.

Clearing It Up

[29] Wet Winter, High Streamflows Boost Runoff Forecast ■ *from [1]*

Heavy rainfall and high streamflows throughout most of March boosted the volume runoff forecast to 99.6 million acre-feet, or 94 percent of average. As measured on the Columbia River at The Dalles, the new forecast is a hefty increase from last month's prediction of 94.3 MAF. Similar jumps are seen in volume forecasts for Grand Coulee--96 percent of average, compared to last month's prediction of 91 percent--and for the Snake at Lower Granite--89 percent, compared to last month's projection of 84 percent.

The improved forecasts were driven by heavy rainfall and high streamflows during March. Precipitation measured 153 percent of average at The Dalles, 138 percent at Coulee and 177 percent at Ice Harbor. Seasonal rainfall (October through March) now totals 114 percent of average at The Dalles, 104 percent at Coulee, and 123 percent at Ice Harbor.

Runoff forecasters were especially impressed with the high streamflows this winter. In March, 178,250 cubic feet-per-second flowed past The Dalles, 139 percent of normal. At Coulee, flows measured 84,420 cfs, 161 percent of normal. On the Snake River, at Lower Granite, March flows were 57,770 cfs, or 115 percent of normal. Flows are expected to drop next month--down to 96 percent at The Dalles; to 99 percent at Coulee; and to 90 percent on the Snake.

In spite of the wet winter, Bonneville is not quite ready to celebrate the end of the drought. "We're about ready to say that 1995 will not go down in the history books as a drought year. But whether or not we've returned to normal and are out of the drought cycle, it's much too early to say," said BPA's Greg Delwiche.

Delwiche added that the region has enjoyed three months of high streamflows and can boast a near-normal snowpack--94 percent of average basin-wide--which should translate into good streamflows during this spring's salmon migrations.

Testimony on the interim increase was filed last week; a hearing was held April 21. The company has said it would like a decision by May 1 so it can go to Wall Street. Bleak financial conditions are forcing the company to seek short-term debt to refinance $40 million in bonds maturing this year and to fund $70 million in construction and expansion plans. The interim increase is part of the general rate case WNG filed in March seeking an increase of $35.4 million, or 8.5 percent *[Ben Tansey]*.

[26] Rehearing Granted in Auger Falls License Extension Case

FERC has granted Idaho Rivers United a limited rehearing of concerns it raised about an indefinite stay FERC granted for Cogeneration Inc.'s license to build the 43.6 MW Auger Falls hydroelectric project on the Snake River in Twin Falls County, ID.

The Federal Power Act requires project construction to begin no later than four years after issuance of a license. Cogeneration Inc.'s license was granted March 29, 1991. The company won the stay after arguing construction was delayed by matters outside its control. Idaho Rivers believes the stay was not merited because the delays were self-inflicted.

Idaho Rivers associate director Liz Paul said Cogeneration Inc. failed to perform monitoring and data collection it was obligated to do under the consent order it signed when the Idaho Department of Environmental Quality issued the project Clean Water Act Section 401 water quality certification. DEQ subsequently issued a Notice of Alleged Violations of the Consent Order and, in December of 1993, a Notice of Intent to Revoke the certification. The Army Corps of Engineers refused to process the project's dredge and fill permit until matters with DEQ were resolved.

Cogeneration Inc.'s Steve Harmsen said things are squared away now with DEQ, but the difficulty took a year and half to work out. He said prior to the run-in with DEQ, the project was delayed for 14 months over post-license consultations concerning ESA-listed bald eagles and two species of snail. The Fish and Wild Service eventually agreed the project would not adversely affect the eagles, but its concerns about the snails got folded into the Army Corp's dredge and fill permit review.

Idaho River's Liz Paul said FERC was "careless" in handling the matter, because "they have taken the developer at his word" and have "overlooked the fact that it was the developer's fault he couldn't start construction by the deadline." She said, "All the developer's excuses are bogus."

In its order granting the stay, FERC rejected Idaho River's contention "that Cogeneration's inability to [commence] construction is somehow attributable to a lack of diligence." It concluded that "the circumstances precluding commencement of construction [were] beyond Cogeneration's control" *[Ben Tansey]*.

Clearing It Up

[27] Competitors Compete and Beat BPA Rate to DSIs ■ *from [1]*

BPA customers--the DSIs in particular--warned during rate settlement negotiations that BPA's 4 percent rate increase offer was too high; the consequences are starting to materialize. Competitors are offering the DSIs power at lower rates than BPA's, and because of a one-year exit clause in the DSI contract, the direct service customers are positioned to take advantage of wholesale--not retail--wheeling.

The BPA/DSI power contract, written along with utility contracts in 1981 after passage of the Northwest Power Act, included the exit clause as an off-ramp for companies that needed to close plants. No one at the time envisioned a situation in which alternative power suppliers would be able to undercut BPA. But in today's market, the exit clause is tailor-made for industrials looking to take advantage of the wholesale power market.

Late last week, Northwest Aluminum Co. President Brett Wilcox confirmed his company has signed a multi-year contract with Washington Water Power for 70 MW, or 40 percent of the DSI's load. More details will be available this week.

DSI Inc. deputy director Steve Waddington said he is amazed at how rapidly the wholesale market is evolving and at how uncompetitive BPA is. "Deregulation [including transmission access], the low cost and abundant supply of natural gas, and dramatic improvements in CT technology have brought the cost of generating electricity below Bonneville's present rate," he said. BPA's competitors recognize the DSI's 24-hour-a day load, at 100 percent load factor, is cheap and easy to serve, and set their prices accordingly.

'There is already . . . talk in the hallways of the region about buying out the transmission system.'

BPA's rate to the DSIs is linked under the Northwest Power Act to the rate charged public utility customers. The aluminum companies currently pay a variable rate of 31.7 mills; in May the rate will fall to 27.4 mills, and in June to 25.9 mills. If the proposed 4 percent rate increase goes into effect Oct. 1, 1995, the rate is expect to rise to 26.9 mills.

BPA agreed in rate case negotiations to allow the DSIs to take up to 250 MW total load off BPA beginning this fall. Knowing that many customers plan to take advantage of that exemption, BPA recently signed and offered an "integration of resources" [IR] contract designed for industrial customers. The contract "defines the conditions under which we would wheel for them," said BPA DSI segment manager Chuck Meyer. The rate that applies to the contract is the IR rate determined in the most recent rate case.

To BPA's credit, DSI Inc.'s Waddington said, the agency" is taking every measure to show they are good stewards of the transmission system. There is already enough talk in the hallways of the region about buying out the transmission system" to make Bonneville managers take notice.

BPA lured 157 MW of top-quartile load back from mothballs with its industrial energy incentive rate offered during fish flush. Any industrial customer, whether a DSI or utility customer, was allowed to bring new or moth-balled capacity on at 16 mills from mid-April through July 31. After fish flush ends, the regular DSI rate or variable rate will apply. BPA said six DSI customers took advantage of the offer: Port Townsend Paper, Georgia Pacific Corp., Columbia Aluminum, Intalco Aluminum, Kaiser Aluminum and Columbia Falls Aluminum *[Pamela Russell]*.

[28] House, Senate Budget Conferees to Decide Future of WSEO ■ *from [5]*

The fate of the Washington State Energy Office has become just another item to be decided by House and Senate budget conferees. Negotiations on the biennial budget will continue as the legislature enters a special session. Both the House and Senate bills to restructure the department are dead, but could be revived and amended to implement any agreement reached by conferees.

The House version of the budget would eliminate the agency as of July 1, 1995, and transfer some of its functions to other agencies. The Senate budget calls for one more year's funding for WSEO and for a study on how to restructure the department's services for implementation by statute during the 1996 legislative session.

At a hearing on natural resource agencies last Wednesday, budget conferees discussed differences in the House and Senate budgets. The House delegate noted the Senate budget would close the office next year, and argued there was no reason to wait. The Senate said it could cost more to close the office out by July 1, as the House proposes.

The two sides agreed to look further into the need for a study, said Carole Washburn, WSEO legislative liaison.

At the request of the legislature, the Energy Options Steering Committee forwarded its recommendations on the future of energy policy and programs in the state. The 19-member group of high-level state and regional energy policy stakeholders had its final meeting April 14.

In its report, the panel identified energy-related functions that "are critical for the future of the state and, by their nature, must be completed by the state." It said, "We unanimously concluded that there should be a smaller but independent cabinet energy agency, charged with carrying out essential state interests, and assisted by an energy advisory committee." But it said more time is needed. "We strongly advise the legislature to provide additional time and resources to continue deliberation and research on how best to ensure valuable energy programs continue to serve Washington's businesses, industry, utilities, and citizens in the future."

'There should be a smaller but independent cabinet energy agency, charged with carrying out essential state interests.'

Members of the steering committee were planning to try to meet with leaders from both houses late last week.

Also in Olympia, the governor has signed ESHB 1125 and SB 5938/HB 1761. The former, the dam safety bill, removes the state Department's of Ecology's authority to regulate, supervise or assure the safety of FERC-licensed hydroelectric projects. The latter bill clarifies the 250 MW threshold over which jurisdiction for new power plants falls to the state's Energy Facility Site Evaluation Council (EFSEC). That bill was pushed by Clark Public Utilities, which is planning to build a 248 MW CT.

State Sen. Al Bauer (D-Vancouver), who sponsored the 250 MW threshold bill in the Senate, wrote a letter to Clark general manager Bruce Bosch saying he wanted to be notified if the average capacity of the utility's CT ever exceeds 250 MW. He said "the general integrity of the state's utility industry was mentioned more than once during the debate on the bill," but added he is convinced Clark will not intentionally produce more than 250 MW from the project. Critics of the law and of Clark say the plant will exceed 250 MW and should be subject to a public vote and EFSEC approval *[Ben Tansey]*.

[29] PGT Announces Open Season to Explore Expansion ■ *from [6]*

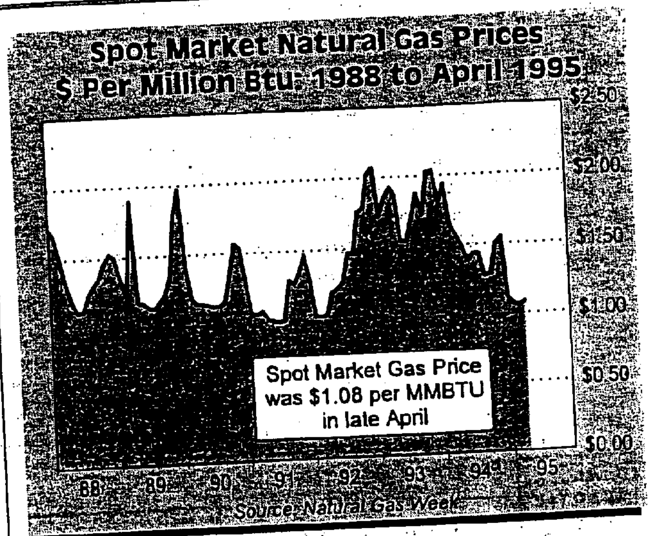
Pacific Gas Transmission last week announced an open season to determine market interest in expanding its mainline transmission system. Already the pipeline is at times taxed to capacity at its Kingsgate receipt point, and both Alberta gas producers and US gas consumers--especially potential electricity generators--appear poised to demand more pipeline capacity.

"This open season is a response to expressions of interest from prospective shippers for additional transportation service on PGT," said Peter Lund, PGT market analysis manager. "This winter, we experienced load factors in excess of 100 percent on a number of days at Kingsgate (British Columbia), our primary receipt point. That level of activity and growing gas demand in the Pacific Northwest, Nevada and California--on top of strong and growing deliverability in the Western Canadian Sedimentary Basin--led us to conclude that

Northwest Numbers

[13] Spot Market Natural Gas Prices Down 32 Percent Over Last Year

The latest data from *Natural Gas Week* show that spot market gas, delivered to Northwest Pipeline Company at locations in the Rocky Mountains, was fetching $1.08 per million Btu in late April. The price of gas on the same market during April 1994 was $1.58 per MMbtu. The chart plots the trend in this key gas statistic since 1988. The drop in spot market gas has not been matched by a similar fall in the residential price of natural gas in the Northwest. In fact, residential rates have increased 8.4 percent over the last year. The numbers from the US Department of Energy, shown on the table below, indicate that the average residential rate was $6.09 per million cubic feet during 1994, up from $5.62 during 1993. The increase in residential rates for 1994 nearly matched the 7.5 percent increase in "city gate" gas prices in the region. City gate prices measure the average wholesale cost of gas acquired by local gas companies for resale to their customers *[Steve Aos]*.



Regional Natural Gas Statistics

	Total Natural Gas Use (Excluding Electric Utility Use)				Gas Use By Sector (Not Adjusted for Weather)				Natural Gas Prices and Rates		
	Actual		Weather-Adjusted		Residential	Commercial	Industrial	Electric Utility	Spot Market Price at Rocky Mountains	Average City-Gate Rate	Average Residential Rate
	BCF	% Chg	BCF	% Chg	BCF	BCF	BCF	BCF	$/MMBtu	$/MCF	$/MCF
Annual Data											
1980	241.7	-	243.4	-	55.5	51.7	134.5	1.3	-	-	5.36
1985	246.2	-	231.3	-	62.2	63.5	120.4	0.1	2.17	3.80	6.75
1986	215.7	-12.4%	220.0	-4.9%	56.6	57.4	101.8	0.1	1.74	3.15	6.17
1987	233.6	8.3%	244.5	11.2%	55.6	56.7	121.3	0.1	1.27	2.48	5.84
1988	256.7	9.9%	260.1	6.4%	63.5	63.3	129.9	1.8	1.41	2.50	5.92
1989	277.3	8.0%	278.4	7.0%	69.6	67.8	139.9	21.3	1.29	2.33	5.66
1990	290.6	4.8%	298.7	7.3%	72.3	67.7	150.6	7.6	1.33	2.11	5.43
1991	317.9	9.4%	321.9	7.8%	82.8	73.7	161.4	11.0	1.26	2.07	5.20
1992	307.5	-3.3%	330.1	2.5%	75.8	66.4	165.3	19.6	1.45	2.06	5.39
1993	356.1	15.8%	352.7	6.8%	95.6	78.4	182.0	21.1	2.02	2.41	5.62
1994	371.0	4.2%	388.2	10.1%	94.2	76.3	200.5	28.6	1.53	2.59	6.09
12 Months Ending											
Jan-95	-	-	-	-	-	-	-	-	-	-	-
Monthly Data											
Jan-94	41.7	-11.6%	45.1	2.6%	14.5	10.6	16.6	3.0	1.82	2.59	5.82
Feb-94	40.0	-0.5%	42.2	11.7%	14.1	10.1	15.8	2.4	1.94	2.46	5.82
Mar-94	36.8	-4.6%	39.0	1.6%	11.5	8.5	16.8	2.3	1.65	2.53	5.89
Apr-94	30.9	3.6%	33.9	10.8%	7.9	6.1	16.9	0.9	1.58	2.50	6.07
May-94	23.4	-6.7%	26.3	-6.0%	4.6	4.3	14.5	0.0	1.50	2.73	6.41
Jun-94	22.7	11.5%	23.6	10.9%	3.4	3.7	15.7	0.3	1.39	2.53	6.77
Jul-94	21.3	8.8%	21.7	13.8%	2.5	3.2	15.6	2.5	1.44	2.53	7.21
Aug-94	21.0	7.8%	21.8	15.3%	1.9	2.7	16.5	3.9	1.44	2.53	7.80
Sep-94	21.1	5.4%	22.2	11.3%	2.2	3.1	15.9	3.9	1.28	2.49	7.46
Oct-94	26.3	13.6%	28.0	16.1%	4.3	4.4	17.6	3.3	1.29	2.79	6.50
Nov-94	38.0	25.6%	37.4	24.0%	10.9	8.0	19.2	2.9	1.51	2.90	6.00
Dec-94	47.7	13.0%	46.9	16.4%	16.5	11.7	19.5	3.2	1.55	2.55	5.89
Jan-95	-	-	-	-	-	-	-	-	1.12	-	-
Feb-95	-	-	-	-	-	-	-	-	1.07	-	-
Mar-95	-	-	-	-	-	-	-	-	1.06	-	-

Sources: US Department of Energy; *Natural Gas Week*; weather adjustment made by *Clearing Up*. Percent changes are from same period, one year earlier. The data cover Washington, Oregon and Idaho. Gas volumes are in billions of cubic feet (BCF). Data for October are preliminary.

■ Monday, May 8, 1995 ■ No. 672 ■

CLEARING UP NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] Montana Protests Reservoir Raid; Idaho Worries About Spill

Montana has strongly hinted that raids on Libby and Hungry Horse reservoirs for salmon flows could lead to a lawsuit. Gov. Marc Racicot told the National Marine Fisheries Service recently to respect the integrated rule curves, or the two sides could "meet in a more formal setting." NMFS' biological opinion also brought fire from Idaho, where Gov. Phil Batt reluctantly agreed to limited spill and use of Dworshak water, but only for one year and only if strong monitoring programs are in place. Spill opponents continued to criticize the monitoring program, with a trio of scientists, commissioned by a utility/industry group, insisting that NMFS begin monitoring fish internally for gas bubble disease. *All the fish news is detailed at [15].*

[2] Alcoa Deal with Chelan PUD, Enron Displaces 50 aMW of BPA Purchase

The portion of Alcoa's Wenatchee Works load served by BPA will be reduced by as much 50 aMW for one year under an arrangement approved April 24 by Chelan PUD with Enron Power Marketing Inc. This marks the first time Alcoa will buy power to replace, rather than supplement, BPA service. BPA still has a tiny window to try to reclaim the load, but it also must begin thinking about the additional 150 MW that Alcoa is also looking to displace. *Alcoa looks to Enron at [16].*

[3] Legislative Update: Tentative WSEO Deal Found; Salem Stays Busy

The Washington State Energy Office will get a nine-month reprieve under a verbal agreement reached by Olympia legislators. In the meantime, a public policy institute will develop a plan to deconstruct the agency and its programs. In Oregon, a compromise has been reached on the controversial need-for-power test for new power plants, while another bill that enjoys wide support could signify the end of traditional cost-of-service utility regulation in that state. *The legislative update continues at [21].*

[4] POTOMAC: O'Leary Outlines Vast DOE Cutbacks, PMA Sales Policy

Apparently trying to pre-empt calls for the elimination of the Department of Energy, Secretary Hazel O'Leary this week unveiled substantial budget and program cuts that she said will yield $1.7 billion toward deficit reduction over five years. The downsizing initiative will close 24 offices, reduce federal employees by on net revenue of $167.9 million compared with $48 million on net revenue of $149.1 million for last year's opening quarter. Earnings per common share were $1.45 compared with $1.33 last year. The company traditionally earns a profit in the first and fourth quarter and shows a loss in the second and third quarters.

Kadlec also said the company is seeking new business opportunities in cogeneration--but it is looking for projects outside of North America. "We're finding that the North American cogen market is tough to crack," he said after the meeting. "But offshore there are huge power shortages in countries such as Pakistan or Cuba. That's where we're looking" *[Brian Lewis]*.

MAY 5-11, 1995
PUGET SOUND BUSINESS JOURNAL

Puget Power readying for retail competition

By PETER NEURATH

While competition is rampant now at the wholesale level in the electric utility industry, at the retail level it's still a somewhat futuristic idea. Even so, Puget Sound Power & Light Co. is preparing for the day it finally arrives.

"It's our belief that there will be a significant degree of retail competition. We want to position ourselves as a company that customers want to be served by," said Puget Power CEO Richard Sonstelie.

Investors may well get an idea of how the Bellevue-based utility plans to do that at next week's annual shareholders meeting, scheduled for 10 a.m. on May 9 at the Meydenbauer Center.

Sonstelie said Puget Power will specialize as a retail distributor of power and services, whereas other companies, such as Oregon's PacifiCorp, may concentrate on wholesale power and transmission services.

"Distribution is the heart of our business," he said. "I don't see us adding more (power) generation, going forward. We will be a buyer."

Puget Power isn't limiting itself, however. This week it announced a joint venture with Itron and Metricom — both in the wireless communications business — to establish a new company that will use enhanced communications to provide a variety of services for utilities.

Competition, though, seems to be the issue of the day for Puget Power and other electric utilities, though that may seem odd to those accustomed to thinking of utilities as regulated monopolies.

Rivalries already exist on the wholesale level — among suppliers of electricity (including utilities) bidding to sell power to utilities that distribute it retail to industrial, commercial and residential customers.

Competition has yet to take hold at the retail level, though Michigan is experimenting with it, and California is tussling with how to implement it.

Retail competition would mean, for example, that Puget Power's customers could buy electricity from other power suppliers, which could use Puget's distribution lines to serve them.

Washington, as other states, would have to adopt legislation permitting that. And before recommending it, regulators likely would have to feel sure that everyone would benefit.

"The jury is still out" as to whether retail competition "would distribute benefits equally," said Dick Byers, a policy specialist with the Washington Utilities and Transportation Commission.

The problem centers on what the industry calls "stranded investments."

Puget Power and other utilities are obligated to serve everyone in their areas; and to do that, they invest in power-generation facilities or contract to buy power that they resell to their customers.

But what if, say, one or more of Puget's large customers opted to buy cheaper power from other suppliers? That would leave the company with the same costs but less revenue, forcing it to ask regulators for permission to raise rates to its remaining customers.

The trick is to gain the benefits of competition — lower prices — for large and small customers alike.

"If that were possible, we would be in favor of it," Byers said. "We would not favor a system that shifts rather than reduces costs, for everyone."

The Federal Energy Regulatory Commission recently proposed rules that would require utilities to open their transmission systems to any power generator seeking to sell wholesale electricity, but also would allow utilities to recover stranded wholesale costs.

The commission embraced the principle that utilities are entitled to full recovery of "legitimate and verifiable stranded costs" at the retail level as well, which is state-controlled.

"A lot of utilities were heartened by this," Sonstelie said.

Commission chair Elizabeth Moler stressed that federal regulators are not the ones introducing competition. The industry itself has done that.

"Marketplace economics have changed," she said. "Customers are simply demanding access to lower-cost supplies in other regions and access to newer, lower-cost generation resources."

Industry restructuring must proceed, Moler said. "But we cannot expect the utilities to be willing participants unless we ensure that their prudently incurred costs are recovered."

How would utilities recover costs? Possibly by charging departing customers exit fees covering the costs until the utilities find new customers, or through buying out contracts, Sonstelie said. "There are lots of ways it could happen."

Sonstelie said he does not foresee all-out retail power sales competition in the immediate future. But he can envision instances where utilities specializing in distribution, such as Puget Power, could offer to let industrial customers shop for power.

For residential customers, utilities and other companies could compete to serve as "portfolio managers," themselves shopping for the cheapest mix of power on behalf of consumers.

Utilities, moreover, may begin marketing such services as helping customers control the amount and timing of their electrical consumption, and bills, or offering them various levels of power reliability and quality, Sonstelie said. "We have just begun to use our imaginations" about what kinds of services a distribution company could offer customers.

Supply & Demand

[21] BPA, NWPPC Analyze California Energy Surplus ■ *from [2]*

BPA analysis shows there are between 3,000 aMW and 4,000 aMW of surplus energy in California that could be used either to supplement the Columbia River System or to encroach on BPA's already shaky load. The figures are from Bonneville's Power Marketing Decision Analysis Model (PMDAM), and were discussed during the Power Council's recent meeting in Seattle.

Dennis Phillips, BPA mechanical engneer/economist, said there is about 24,000 MW of gas boiler generation on the west coast, mostly in Califorinia. During the fall and winter, these plants are operating at a capacity factor of just under 40 percent, he said. This leaves approximately 3000 aMW to 4000 aMW of 9,400 to 9,700 Btu/KWh generation available to market to the Pacific Northwest. This energy would be imported primarily during shoulder and off-peak hours. The model shows that this energy could be sold as firm energy at an average annual levelized cost in the low 20 mills/KWh at the generator bus.

These numbers generally correspond to those being developed independently by Power Council staff using the Accelerated California Market Estimator (ACME) model. Those figures are expected to be finalized in time for the next Council meeting. They are still being firmed up because when council staff asked the California Energy Commission to run its model, there was some divergence. "ACME was saying there's a lot (of surplus) and it's cheap; the CEC model said the surplus is not that much, and it's expensive," said Wally Gibson, NWPPC manager of system analysis and generation. The two agencies are working to reconcile their figures. The CEC includes gas transportation costs that can add 30 percent to 50 percent to the price, "but on the other hand, what they were predicting would happen isn't happening," Gibson said.

The CEC was scheduled to release its draft 1994 electricity report last Friday.

A source inside the market, meanwhile, says the BPA and Council numbers are way off. The amount of uncommited capacity among QF's over 2 MW in PG&E's control area comes to about 540 MW said Greg Blue, a regional manager for Destec Energy. The figure for Southern California Edison must be in the same ballpark, he said. The PMDAM model may have come up with the higher figure based on economics, "but that's not the same as what's not commited under a long-term contract. If there were thousands of megawatts, I'd be out there trying to aggregate it." The total QF capacity in all of California is only about 10,000 MW, he said.

Destec, which has a networking and transmission agreement with PG&E, only recently made its first sale--a 20 MW deal with SMUD. The company already has in excess of 100 MW of supply in its own power pool with more on the way. Using the plants it operates, Destec can back up these sales and offer firm power. It has already entered the Northwest market, bidding on some regional RFPs, and is in serious discussions with a DSI for a three-year, 50 MW seasonal deal. "We think there's a big market out there," Blue said.

The aggregation of non-firm energy could pose a serious threat to Bonneville. Under a scenario BPA refers to as load switching, marketers can assemble chunks of the ample supply of non-firm energy on the spot market and in the short-term remarket it as firm power. If BPA loses load to deals like this, it will have to dump the displaced energy on the nonfirm market, increasing the supply of cheap energy for its competitors. "We'd be chasing our tail," said BPA's Phillips.

The amount of load that theoretically could be displaced is limited to the amount of economic generating capability that is not being used at any given hour, plus the total nonfirm sales that are being made at any given hour, Phillips said *[Ben Tansey]*.

[22] Whatcom PUD to Help Georgia-Pacific Find Alternatives to Puget ■ *from [4]*

Georgia-Pacific Corp., one of Puget Power's largest customers, signed an agreement last week to reimburse Whatcom PUD for expenses incurred in making arrangements for new retail electric service.

"GP is seeking a more economic source of electric power," according to the agreement, and "has requested that the District provide retail electric service" at its facilities in Bellingham--a pulp and paper mill and chlorine and lignin operation.

Another Puget customer in Whatcom territory, Bellingham Cold Storage, signed a similar agreement with the PUD in March. John Asmundson, Georgia-Pacific's manager of compliance and technology, said if a system is built, it could serve both companies. "If the project is feasible, it will be even more so for two customers."

> **'It's safe to say we cannot afford to pay [Puget's prices] . . . we can't compete in our own business.'**

Asmundson said GP currently places a load of 42 aMW on Puget. Under its tariff, it is currently paying about 40 mills/KWh for power, he said. "But it's going up next winter. (Puget) announced another PRAM.

"It's safe to say we cannot afford to pay those kinds of prices. It's not competitive." Puget's rates are already the highest in the region he said, and with high wood costs, "we can't compete in our own business."

Asmundson said Puget has been willing to talk about the issue, but "There's no beef in the burger. They've come at us with one suggestion that really doesn't do much more than allow us to take the risk of the spot market, and if we're lucky we'd end up with lower rates. If the spot market continues to bounce around as it has traditionally done, we get no benefits or potentially we could get burned. There's little advantage to taking that offer."

The suggestion was not an attempt to be competitive, he said. But it was something Puget thought it would not have to bring before the WUTC for approval.

Puget Power spokesman Bill Seil said, "We are currently talking with Georgia-Pacific on a variety of matters related to their service and we certainly intend to retain them as a customer."

Asmundson said GP approached Whatcom. GP recognizes deregulation of the electric market is under way, and its experience with gas deregulation was that was successful and did not result in a lot of cost shifting. "We not only saved money, but the whole gas industry is saving money." He said he's confident the same thing can happen for the electric industry.

After the PUD completes a study on the physical needs to serve GP and Bellingham Cold Storage, the agreement is open-ended, said Whatcom manager Tom Anderson. If negotiations for a more economical supply from Puget do not work out, the PUD will seek offers to supply the companies just as it did recently for the ARCO refinery.

GP also has a pulp and paper mill in Toledo, OR, in Central Lincoln PUD's service territory. The company has been considering a cogen option for that plant, but the uncertainty of future power costs makes it difficult to analyze the potential savings from cogen *[Ben Tansey]*.

Courts & Commissions

[23] FERC Approves Northwest Regional Transmission Association ■ *from [8]*

FERC on June 28 approved the formation of the Northwest RTA, with 20 utilities and power marketers initially proposing to join. NWRTA told FERC it anticipates more than 50 entities eventually will join. FERC approved the governing agreement as submitted, but told NWRTA, as it told the Western RTA, that it wants a report in two years specifically to determine whether NWRTA and WRTA are coordinating, not duplicating, each organization's efforts.

The initial parties proposing to become members of NWRTA are: BC Hydro, BPA, Montana Power, Okanogan PUD, Puget Power, Eugene Water & Electric Board, Kootenai Electric Co-op, Northern Wasco PUD, Pacific Northwest Generating Co-op, Portland General Electric, Tacoma City Light, Citizens Lehman Power LP, Enron Power Marketing, Powerex, Grays Harbor PUD, Seattle City Light, Forest Grove, Tenaska Power Services, PacifiCorp and Clark Public Utilities. A dozen or so more utilities submitted letters of support and said they may become members.

Seven state and regional agencies said they intend to participate in the RTA: Northwest Power Planning Council, Oregon Energy Office, Oregon PUC, Washington State Energy Office, Washington UTC, Idaho PUC, and the Province of British Columbia Ministry of Energy, Mines and Petroleum Resources.

FERC wants RTAs to represent broad geographic areas as well as broad participation within the geographic area. "Arguably, it would be preferable to have only one RTG within the Western System Coordinating Council, and for Pacific Northwest and Southwest regional issues to be handled within the confines of that single RTG," states FERC. "NWRTA insists, however, that a separate RTG in the Pacific Northwest is necessary because transmission access and pricing issues in the Pacific Northwest are different from those in the rest of the WSCC region. . . because the Pacific Northwest relies on a hydro-based electric power system; it includes many public power utilities; and Bonneville is the primary owner of transmission."

FERC agreed, but insisted that SWRTA, WRTA and NWRTA coordinate closely. The commission said it will consider complaints from RTG members if they believe the RTGs are not closely coordinating the planning and processing of transmission requests.

FERC designated the Northwest Power Pool the approved contractor for providing NWRTA with technical expertise in transmission planning. The power pool's responsibilities will provide an appropriate counterpoint to the RTAs, said NWPP director Rich Nassief. "Our first responsibility is to preserve reliability, whereas the RTA is driven by a commercial relationship. We will help balance [the demands of] the commercial relationship with the need to preserve reliability," he told *Clearing Up*.

NWRTA will hold its first organizational meeting on August 15, at which time organizers will take a first crack at a budget, said Shelly Richardson, senior counsel for the Public Power Council. Some public utilities are holding off on joining NWRTA because they don't know what the budget will be, she said. But the regional transmission group, with a dispute resolution process described in the governing agreement, brings an advantage to small utilities, she noted. For a utility with a complaint about transmission access, the only option up to now has been to file a complaint with FERC.

This week, on Thursday, July 6, NWRTA members will meet to see if the group has a common position from which to file joint comments on FERC's Notice of Proposed Rulemaking on transmission access *[Pamela Russell]*.

upon the subsequent refilling of the reservoir," he wrote.

Grunke agreed that the reservoir will likely refill, but not during summer months, when recreation is at its peak and when timber companies need the reservoir to transport logs. "We'll easily see a loss of between $5 million and $7 million this year to the local economy, and we still don't know if this is helping fish," he said.

"[The judge] is saying you can throw everything out the window--power production, flood control, log transport--no matter, because fish and wildlife is the only purpose. This is a new stretch of logic," he added

Orofino is considering an appeal to the 9th US Circuit Court of Appeals *[L. F.]*.

[17] Pend Oreille Lake May Be Higher Under NWPPC Plan ■ *from [10]*

A controversial effort to boost winter levels at Idaho's Lake Pend Oreille is gaining momentum at the Northwest Power Planning Council. Under a compromise reached in July, the lake would be held as much as five feet higher by 1998, to promote spawning by resident kokanee.

The Idaho Department of Fish and Game fought hard to raise the lake, insisting that the drop in lake levels was killing kokanee eggs near the shoreline. Idaho wanted to boost the level by five feet this winter, but the compromise calls for a three-foot increase this year, four feet next year and five feet in 1998.

Normally, the Army Corps of Engineers pulls the lake down 11 feet during the winter for power production. Council staff say the experiment will cost as much as $6 million in lost power for a five-foot draw up. The three-foot increase will cost $3 million; the four-foot experiment, $5 million.

The compromise includes a call for studies to determine if the higher levels boost kokanee production. But Ken Casavant, Washington's representative on the power council, questions whether those studies will materialize.

"I think this plan is extremely scientifically flawed. BPA is not likely to fund [the studies], so the only thing we'll get is the draw up and none of the scientific work that should go with it," he said.

Idaho has promised to pick up the tab for a portion of the draw up, but has committed to study only the effect on kokanee. Other aspects that Casavant considers critical, such as the effect on predators and food sources, will not be studied without BPA money.

The compromise amendment is expected to be approved when the council votes on the fish and wildlife plan at its August meeting in Ashland, Oregon *[L. F.]*.

[18] NWPPC May Hire Top Interior Official for F&W Post ■ *from [11]*

A top official at the US Department of the Interior may soon guide fish and wildlife activities at the Northwest Power Planning Council. David Cottingham, water and science assistant to Interior Secretary Bruce Babbitt, reportedly is high on the list to replace Rick Applegate, former director of the fish and wildlife division.

Cottingham would neither confirm nor deny that he applied for the job, but several sources corroborate that he is a top candidate. Cottingham, a biologist, has worked in the nation's capital since 1979, including a stint at the National Oceanographic and Atmospheric Administration. He also spent time at Duke Power Company in North Carolina. Currently, Cottingham coordinates endangered salmon policy at Interior. He was credited with helping devise the current federal salmon rescue program of spill and high flows.

Also reportedly high on the list is John Volkman, currently the power council's chief legal counsel. Volkman insisted he is not seeking the job, but declined to say whether he would accept it, if offered.

Another reputed candidate, attorney Tom Jensen, currently natural resources expert for the Council on Environmental Quality, insists he is not interested in the job. While Jensen admits he has coveted Applegate's job in the past, he now says, "I wouldn't wish the job on anyone.

"Fishery issues are so controversial...[This person] will be blending science and policy for people who are not prepared to accept science or not prepared to accept policy recommendations," he said.

Other candidates include Doug Marker and John Marsh, current NWPPC fish and wildlife staffers. Marker, a senior policy coordinator, formerly served as chief of staff to Rep. Peter DeFazio (D-OR). Marsh, a system planning coordinator, is a fisheries biologist as well as an environmental attorney. His experience includes stints at the National Marine Fisheries Service and the Columbia River Inter-Tribal Fish Commission. *[L. F.]*.

Supply & Demand

[19] City's Cost of Power Tied to Market; Supply to Include Wind ■ *from [8]*

The City of Portland signed an agreement with PGE Aug. 2 tying a portion of its power purchases to the wholesale cost of electricity. The city also signed an agreement under which PGE will use wind power to serve 5 percent of the power delivered under the tariff. Both agreements go into effect this summer.

The Portland Energy Office said about $2 million of the city's annual power purchases from PGE will be tied to the wholesale cost of power. It said the agreement will save the city up to $850,000 over the five-year life of the contract.

PGE also agreed to purchase or generate 11.3 million KWh of wind-generated electricity over the 5-year term. The city had hoped the power would be in addition to wind resources PGE is already planning to acquire, but the IOU was not prepared to make that commitment, said David Tooze, energy program manager for the city's energy office.

Tooze said the plan was initiated by PGE after the city went to the utility saying it wanted to implement a city goal to support renewable energy.

It developed that the only way the city could purchase wind within the existing retail market structure was to utilize PGE's Schedule 87, the experimental tariff approved earlier this year allowing the IOU to offer market-based rates to its industrial customers.

To meet the 10,000 KW demand threshold of Schedule 87, six of the city's industrial-type accounts were folded together. The billings for the six accounts--including a wastewater treatment plant, water pump stations and the city's downtown headquarter building--come to about $2 million. This represents the optimum combination of accounts from a cost-effectiveness point of view because these accounts also pay the highest demand charges. Putting more accounts in the package would have cut into the savings, Tooze said.

The energy charge the city has been paying for the six accounts is 4.6 cents/KWh. Under the new agreement, five percent of the energy purchased under the new tariff will be wind energy. Portland will pay 6.5 cents/KWh for the wind power and 4 cents for the rest, for a melded rate of 4.2 cents/KWh.

The wind contract is subject to annual renewal. It does not specify a particular resource, but PGE has a 12.5 MW interest in Kenetech's Columbia Hills project and is in negotiations with Kenetech for a separate 50 MW project in Umatilla County.

PGE currently provides about 125 million KWh of Portland's 136 million KWh annual demand, with Pacific Power serving the rest. The city pays $6.5 million annually for the PGE portion and just over half a million dollars annually to Pacific.

"We view this as a first step," Tooze said. "We hope to open the doors for the city as purchaser, and send a positive message to the industry that customers really want to buy sustainable, clean, non-hydro renewable resources and are willing to pay a reasonable premium for that."

Fred Miller, PGE public affairs vice president, complimented the city's action, saying it "demonstrates visionary leadership." *[Ben Tansey].*

[20] Chelan PUD Looks to Squeeze More Power from Big Dams ■ *from [9]*

Chelan PUD is preparing comments on the draft EIS FERC prepared on the utility's plan to raise the headwater elevation at Rocky Reach Dam 3 feet to 710 feet. The $16 million project will make it possible to get another 35 aMW of generation from the 1,213 MW dam.

Under FERC's conditions, the added generation capacity of the project would be only 27 aMW.

But of the nine conditions FERC included, the PUD would like to see adjustments to only one. Chelan currently can vary the reservoir 4 feet between the 703 foot level and the 707 foot level. FERC wants to keep the 4-foot range by raising the minimum to 707 feet, while Chelan would like to keep the 703 foot minimum and have a total of 7 feet of flexibility.

That much variation is needed only during heavy winter load periods, and the wider margin is akin to a line of credit, said Jim Huffman, Chelan environmental coordinator. "Having that line of credit is of great value to us because of the way other agreements work, especially the hourly coordination agreement."

Chelan commissioners were also brought up to date on the PUD's plan to recall a portion of the capacity at Rock Island dam. The 200 MW of the second powerhouse is currently contracted to Puget Power, but with five years' notice, the PUD is eligible to reclaim 10 percent of that each year starting in 2000

The PUD is giving notice to take back 11 MW, about half of which will go to serve Alcoa and half the PUD's own system. Huffman said because of the uncertainties over the future cost of gas, the PUD is hedging its bets by taking only a portion of the entitlement. "We'll watch both load growth and the markets," Huffman said. "But we're in an enviable position, because we have a future resource with a known cost" that requires no permitting, construction or financing, he noted *[Ben Tansey].*

Washington UTC Affirms Jurisdiction Over Water Power Sale to Kaiser

Washington UTC staff rejected a request from Washington Water Power and Kaiser Aluminum to forgo jurisdiction over the 5-year, 50 MW power sale the companies agreed to in June (see CU 678 [4/19]).

Thomas Dukich, WWP rates manager, said BPA voluntarily allowed Kaiser (and the other DSIs) to find other suppliers for their top quartiles, that WWP has never served Kaiser before and has no direct

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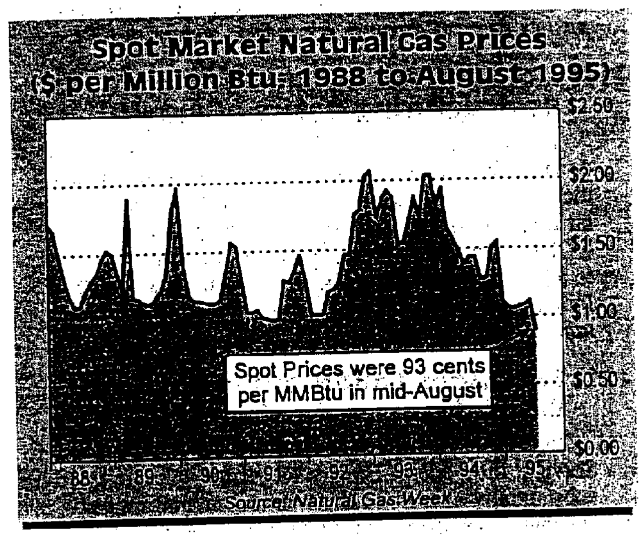
Northwest Numbers

[15] Spot-Market Natural Gas Prices Drop to Lowest Levels in Years

The major news in the natural gas market in the Northwest continues to be the falling price of spot-market gas. The latest data from *Natural Gas Week* show that spot-market gas, delivered to Northwest Pipeline Company at locations in the Rocky Mountains, was just 93 cents per million Btu in mid-August. The price of gas on the same market during August last year was $1.44 per MMbtu, leaving prices today down about 35 percent from year-ago levels. The chart plots the trend in this key gas statistic since 1988. After peaking in 1993, spot market prices have marched downward. Even without adjusting for inflation, gas prices are now at their lowest level in years. If the general rate of inflation is taken into account, then "real" gas prices are today much lower. For example, expressed in terms of today's dollars, the spot-market price of gas in 1985 was $3.08 per MMbtu. Today's price of 93 cents is just 30 percent of that decade-ago figure *[Steve Aos]*.



Regional Natural Gas Statistics

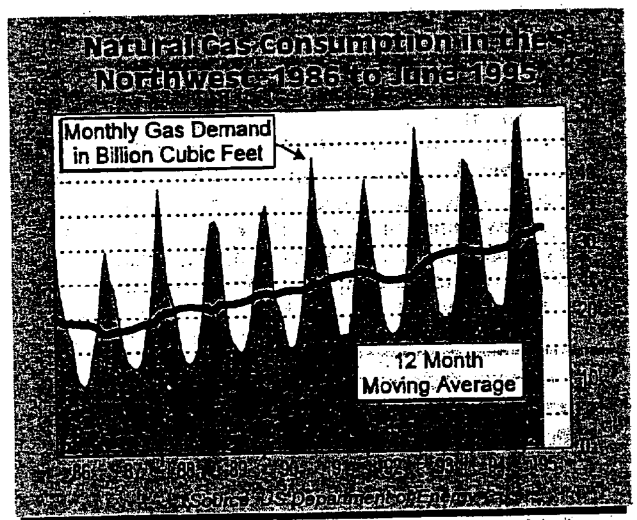
	Total Natural Gas Use (Excluding Electric Utility Use)				Gas Use By Sector (Not Adjusted for Weather)				Natural Gas Prices and Rates		
	Actual		Weather-Adjusted		Residential	Commercial	Industrial	Electric Utility	Spot Market Price at Rocky Mountains	Average City-Gate Rate	Average Residential Rate
	BCF	% Chg	BCF	% Chg	BCF	BCF	BCF	BCF	$/MMBtu	$/MCF	$/MCF
Annual Data											
1980	241.7	-	243.4	-	55.5	51.7	134.5	1.3	-	-	5.36
1985	246.2	-	231.3	-	62.2	63.5	120.4	0.1	2.17	3.80	6.75
1986	215.7	-12.4%	220.0	-4.9%	56.6	57.4	101.8	0.1	1.74	3.15	6.17
1987	233.6	8.3%	244.5	11.2%	55.6	56.7	121.3	0.1	1.27	2.48	5.84
1988	256.7	9.9%	260.1	6.4%	63.5	63.3	129.9	1.8	1.41	2.50	5.92
1989	277.3	8.0%	278.4	7.0%	69.6	67.8	139.9	21.3	1.29	2.33	5.66
1990	290.6	4.8%	298.7	7.3%	72.3	67.7	150.6	7.6	1.33	2.11	5.43
1991	317.9	9.4%	321.9	7.8%	82.8	73.7	161.4	11.0	1.26	2.07	5.20
1992	307.5	-3.3%	330.1	2.5%	75.8	66.4	165.3	19.6	1.45	2.06	5.39
1993	356.1	15.8%	352.7	6.8%	95.6	78.4	182.0	21.1	2.02	2.41	5.62
1994	371.0	4.2%	388.2	10.1%	94.2	76.3	200.5	28.6	1.53	2.59	6.09
12 Months Ending											
May-95	388.7	11.7%	401.6	11.4%	97.6	79.4	211.6	28.2	-	-	6.11
Monthly Data											
May-94	23.4	-6.6%	26.3	-6.0%	4.6	4.3	14.5	0.0	1.50	2.73	6.41
Jun-94	22.7	11.5%	23.6	10.9%	3.4	3.7	15.7	0.3	1.39	2.53	6.77
Jul-94	21.3	8.8%	21.7	13.9%	2.5	3.2	15.6	2.5	1.44	2.53	7.21
Aug-94	21.0	7.9%	21.8	15.3%	1.9	2.7	16.5	3.9	1.44	2.53	7.80
Sep-94	21.1	5.5%	22.2	11.3%	2.2	3.1	15.9	3.9	1.28	2.49	7.46
Oct-94	26.3	13.7%	28.0	16.2%	4.3	4.4	17.6	3.3	1.29	2.79	6.50
Nov-94	38.0	25.7%	37.4	24.1%	10.9	8.0	19.2	2.9	1.51	2.90	6.00
Dec-94	47.7	12.5%	46.9	15.9%	16.5	11.7	19.5	3.2	1.55	2.55	5.89
Jan-95	48.4	16.0%	50.5	12.0%	16.5	11.8	20.1	3.7	1.12	2.36	5.84
Feb-95	39.6	-1.1%	42.8	1.5%	12.5	9.3	17.8	1.8	1.07	2.47	5.94
Mar-95	39.4	7.0%	41.3	5.9%	11.9	9.4	18.0	1.7	1.06	2.40	5.98
Apr-95	33.9	9.7%	34.5	1.7%	9.1	7.0	17.8	0.9	1.08	2.26	6.13
May-95	29.2	24.9%	30.8	16.9%	6.1	5.2	18.0	0.2	1.09	2.23	6.11
Jun-95	-	-	-	-	-	-	-	-	1.12	-	-
Jul-95	-	-	-	-	-	-	-	-	0.90	-	-

Sources: US Department of Energy; *Natural Gas Week*; weather adjustment made by *Clearing Up*. Percent changes are from same period, one year earlier. The data cover Washington, Oregon and Idaho. Gas volumes are in billions of cubic feet (BCF). Data for October are preliminary.

Northwest Numbers

[18] Natural Gas Demand Up, Spot Prices Down

Total natural gas consumption in the Pacific Northwest continues to show near-record growth. Before adjusting for weather, total demand was up 11 percent for the twelve months ending in June of this year. The latest actual monthly gas demand numbers from the US Department of Energy are plotted on the chart, along with the 12-month moving average to help in spotting annual trends. After adjusting for the warmer-than-normal weather over the last year, natural gas consumption is up an even more remarkable 12.7 percent. The numbers on the chart exclude the gas used by electric utilities to generate kilowatt-hours. While demand is up, spot market gas prices continue near record low levels, as the table below shows. Gas was selling at about 96 cents per million btu during September compared to $1.28 in September 1994, a 25 percent drop over the last year *[Steve Aos]*.



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Aug-94	21.0	7.9%	22.3	18.2%	1.9	2.7	16.5	3.9	1.44	2.53	7.80
Sep-94	21.1	5.5%	22.9	14.9%	2.2	3.1	15.9	3.9	1.28	2.49	7.46
Oct-94	26.3	13.7%	29.0	20.2%	4.3	4.4	17.6	3.3	1.29	2.79	6.50
Nov-94	38.0	25.7%	36.9	22.3%	10.9	8.0	19.2	2.9	1.51	2.90	6.00
Dec-94	47.7	12.5%	46.2	14.1%	16.5	11.7	19.5	3.2	1.55	2.55	5.89
Jan-95	48.4	16.0%	51.9	15.0%	16.5	11.8	20.1	3.7	1.12	2.36	5.84
Feb-95	39.6	-1.1%	45.1	7.0%	12.5	9.3	17.8	1.8	1.07	2.47	5.94
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May-95	29.2	24.9%	31.6	19.9%	6.1	5.2	18.0	0.2	1.09	2.23	6.11
Jun-95	23.1	1.5%	24.2	2.3%	3.6	3.9	15.7	0.0	1.12	-	6.83
Jul-95	-	-	-	-	-	-	-	-	0.90	-	-
Aug-95	-	-	-	-	-	-	-	-	0.92	-	-

Sources: US Department of Energy; *Natural Gas Week*; weather adjustment made by *Clearing Up*. Percent changes are from same period, one year earlier. The data cover Washington, Oregon and Idaho. Gas volumes are in billions of cubic feet (BCF). Data for October are preliminary.

Monday, April 15, 1996 ■ No. 720 ■

CLEARING UP

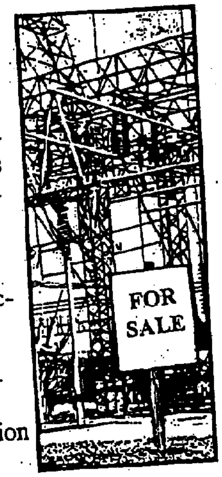
NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] BPA Agrees to Sell Low-Voltage Substations to Utilities, DSIs



Under the BPA transmission rates, terms and conditions settlement agreement forged last week, Bonneville has agreed to offer to sell or lease to low-voltage customers the substations that deliver their power. A preliminary BPA count finds that 200 to 250 substations (of a total of 390) could be acquired by customers. Customers requested the right to buy the delivery facilities as a way of avoiding the delivery charge, one element of BPA's new segmented power and transmission rates. *The rate settlement goes through at [17].*

[2] Oregon Judge Disallows PGE Recovery of Return on Trojan

An Oregon judge has dealt Portland General a dramatic setback by ruling state law prohibits it from recovering a return *on* its undepreciated investment in the terminated Trojan nuclear plant. While upholding the IOU's right to recover its $288 million investment *in* Trojan, the ruling would prevent PGE from recovering the return, which this year alone will come to $22 million. Petitioner Citizens Utility Board celebrates "a huge victory;" PGE says it will appeal. *The judge's ruling is at [14].*

[3] Puget Contract for Intel Corp. To Be Based on Market Prices

Puget Power has asked the WUTC to approve a new special contract for Intel Corp. that offers a 5-part rate based on Puget's own variable energy costs. The WUTC said the agreement is the first in Washington to offer unbundled wheeling services. The most contested issue is whether the special contract discriminates against customers paying rates under Puget's standard tariffs. Intel's rate would also be capped at the standard tariff. Puget says the rate provides for recovery of all costs and points out the agreement is unique because Intel said it would not build in Washington absent the agreement. *Intel moves into Puget territory at [18].*

[4] Western Montana G&T Shortlists Two IOUs, Two Marketers

Western Montana G&T has shortlisted four suppliers from the 14 bids submitted in response to its recent RFP. Further negotiations will now get underway with Montana Power, PacifiCorp, LG&E Power Marketing Inc. of Costa Mesa, CA and Illinova Power Marketing Inc. of Salt Lake City. Economic & Engineering

Plenty of Hydro in NW; CA Cools Bulk Market, Heat Drives SW Prices Higher

Spot power markets in the Pacific Northwest and California fluctuated a bit last week, with prices settling until a slight uptick when BPA limited peak-hour deliveries to 500 MW on Friday.

Though on-peak prices for non-firm energy began the week at 11 mills to 12.5 mills/KWh, they softened to 9 mills to 11 mills/KWh mid-week. The federal non-firm price rose to 13 mills/KWh during the 8 am to 10 am morning rush hour on Friday for limited quantities of power. The general consensus was that other utilities followed along with their pricing--but some marketers reported undercutting BPA prices just a bit at 11.25 mills to 12 mills/KWh for daily blocks. Off-peak power was routinely reported at 5 mills to 7 mills/KWh.

The same pricing dynamic was reported by buyers throughout California, where reservoir levels are well above normal and, in some cases, approaching capacity from the melting snow. With lots of power available, the market hardly missed PG&E's Diablo Canyon Unit 2, which went down for a scheduled refueling on April 6. The plant is set to return by May 3, PG&E said.

The Southwest market followed a different pattern established mainly by the combination of hot weather and unit outages early in the week. As temperatures climbed into the mid-90s on Tuesday, some utilities were forced into the real time market, where sellers demanded up to 25 mills/KWh for peaking power. The general run of prices at Palo Verde and Four Corners, however, was more likely in the 12 mills to 14 mills/KWh range. Prices at Mead were a notch higher, at 13 mills to 15 mills/KWh on-peak. Off-peak energy remained low, at 7.5 mills to 8.5 mills, most traders said.

Prices softened by Friday with the return to service of coal-fired units at San Juan and Navajo. But several other power plants remain off-line for scheduled spring maintenance or economics.

The Alberta Power Pool appeared quite serene last week, with daytime prices lower that the past several weeks and rarely rising above 15.5 mills (Canadian$) *[Arthur O'Donnell]*.

Western Non-Firm Electricity Prices Mid Week April 8-12, 1996

	Peak (heavy)	Off-Peak (light)
Alberta (C$)	7.5-15.5 mills/KWh	5.5-7 mills/KWh
NW/Rockies	9-13	5-7
N. California	11.5-12	5.75-7
S. California	13-15	n/a
Southwest	14-16	7.5-8.5

Week in Summary

Services, the G&T's consultant, said all of the remaining bids on Product A are under 20 mills/KWh on a levelized basis. Product A is a five-year, 25 MW block of power at 100 percent load factor.

Bill Drummond, manager of the seven-member G&T, said the members will now go about further refining their needs and take that information to the short-listed bidders. With the market as dynamic as it is now, Drummond said he does not expect to have more than a rough idea of the actual costs until all or most of the specific elements of the offers have been ironed out *[B. T.]*.

[5] EWEB Must Disclose Westinghouse Settlement Details--But Not Yet

A Lane County Circuit Court judge has ruled that EWEB must disclose details of its settlement agreement with Westinghouse over faulty steam generators at the Trojan nuclear power plant--but not immediately. The judge agreed with EWEB and Westinghouse that release of the information could prejudice settlement of ongoing related litigation against Westinghouse in other states, and ordered that the settlement agreement should be released only when related litigation has been concluded. *Details of the ruling disclosed at [15].*

[6] Appeals Court Sends Bull Trout Suit Back to District Court

The 9th Circuit Court of Appeals has remanded to US District Court in Portland a challenge to the federal government's failure to protect bull trout. Saying "the public interest supports resolution of this dispute," the appeals court overturned the district court's dismissal of the lawsuit, which was filed by several environmental groups. Calling the ruling "a major victory for bull trout," the Alliance for the Wild Rockies vowed to convince the district court that ESA protection is critical if bull trout are to survive in the Northwest. *Bull trout return to federal court at [13].*

[7] Two Northwest Utilities Offering Local Internet Access

Two small Northwest electric utilities are offering a new service: access to the Internet via a local phone call. In joining the ranks of Internet service providers, Pacific County PUD and Umatilla Electric Cooperative plan to help people in their communities take advantage of the global computer network. *Utilities venture into the cyberspace marketplace, at [19].*

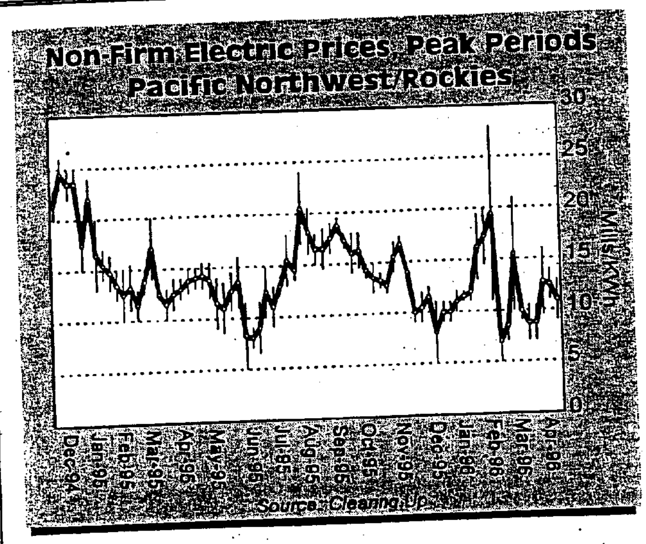
[8] BC Hydro Takes Bigger Share in Pakistan Power Project

In a bid to reassure international investors, BC Hydro is buying up shares in the controversial International Power Corporation (IPC) to stabilize a $119 million (Canadian$) power project in Pakistan, which in February triggered an insider trading scandal that led to the firing of Hydro's top two executives. Brian Smith, Hydro's newly-appointed chairman who is investigating

Northwest Numbers

[11] Non-Firm Electric Prices Lower This Year

Clearing Up's weekly survey of non-firm electric prices shows that electricity in the Pacific Northwest has been trading below year-ago price levels. In the Northwest, peak period non-firm prices ranged between 9 and 13 mills per KWh last week. During the same week in 1995, prices ranged between 12.5 and 15 mills per KWh. Prices have been lower this season because of much-better-than-average hydro conditions in the region and slackening regional electricity demand. With supply up, and demand not, prices have fallen in Economics 101 fashion. *Clearing Up* obtains this price information from a telephone survey of key utilities in the West. High and low market prices are tallied for peak period and off-peak period transactions. The weekly prices are published on the "Price Report" section on page two. The chart at right plots the price data for peak period transactions in the Pacific Northwest/Rockies region since November 1994 *[Steve Aos]*.



Regional Electricity Statistics

	Electric Loads (Without DSI Loads)			DSI Data		Pacific Intertie Activity		Spot Market Price Pacific NW/Rockies		Sales By Sector (States of WA, OR, ID)		
	Actual (aMW)	Weather-Adjusted (aMW)	% Chg	Loads (aMW)	Aluminum Price (c/lb)	Exports From PNW (aMW)	Imports To PNW (aMW)	Peak Demand Period Low (mills/KWh)	Peak Demand Period High (mills/KWh)	Residential (GWh)	Commercial (GWh)	Industrial (GWh)
Calendar Year												
1975	11,341	11,290	-	2,902	39.8	-	-	-	-	35,175	22,711	44,930
1980	14,097	14,231	-	3,117	69.6	-	-	-	-	42,926	28,274	50,009
1985	15,063	14,750	-	2,524	49.0	4,273	368	-	-	48,239	33,898	46,541
1990	16,641	16,678	-	3,187	75.0	3,129	218	-	-	49,815	38,816	63,375
1991	16,806	16,952	1.6%	3,164	60.0	2,981	190	-	-	51,809	39,531	63,045
1992	16,924	17,174	1.3%	2,965	58.0	1,603	562	-	-	49,377	40,830	61,006
1993	17,538	17,488	1.8%	2,491	53.8	1,543	1,290	-	-	53,384	41,312	56,264
1994	17,834	17,917	2.5%	2,279	71.9	1,526	1,018	-	-	52,378	42,966	55,995
1995	17,546	17,788	-0.7%	2,456	86.1	1,869	604	-	-	52,454	42,843	58,856
12 Months Ending												
Dec-95	17,546	17,788	-0.7%	2,456	86.1	1,869	604	-	-	52,454	42,843	58,856
Jan-96	17,631	17,797	-1.1%	2,492	84.0	1,954	553	-	-	-	-	-
Feb-96	17,753	17,844	-0.9%	2,530	82.4	2,123	514	-	-	-	-	-
Mar-96	17,502	17,572	-2.8%	2,561	81.3	2,278	694	-	-	-	-	-
Monthly (year-to-year percent changes)												
Dec-94	20,824	21,065	3.5%	2,292	91.5	1,254	1,751	20.5	24.0	6,117	3,801	4,647
Jan-95	20,306	21,147	4.9%	2,304	100.4	1,088	1,017	15.0	19.4	6,417	3,755	4,865
Feb-95	19,014	19,640	0.0%	2,280	93.8	1,260	964	10.8	14.6	5,424	3,446	4,516
Mar-95	18,439	18,710	4.7%	2,251	88.7	1,248	757	11.9	15.0	5,257	3,481	4,918
Apr-95	16,915	17,009	2.3%	2,347	90.4	1,107	1,069	12.6	14.9	4,651	3,438	4,764
May-95	15,963	15,963	-0.2%	2,433	85.1	1,746	491	10.3	14.7	3,941	3,329	4,959
Jun-95	16,333	16,333	-3.2%	2,503	84.5	2,791	206	7.1	11.8	3,414	3,562	4,967
Jul-95	17,155	17,155	-1.8%	2,510	87.3	2,569	338	11.9	15.1	3,347	3,777	5,246
Aug-95	16,811	16,811	-1.2%	2,484	87.2	1,905	395	15.7	20.0	3,138	3,771	5,281
Sep-95	16,204	16,204	0.5%	2,534	81.8	1,731	493	15.8	18.4	3,233	3,591	4,951
Oct-95	17,886	17,660	4.9%	2,547	77.9	2,405	407	12.5	14.4	3,639	3,548	4,610
Nov-95	17,907	18,719	-3.1%	2,601	77.2	1,773	543	12.2	14.5	4,419	3,383	4,838
Dec-95	17,619	18,104	-14.1%	2,680	78.8	2,804	566	8.4	11.4	5,574	3,762	4,941
Jan-96	21,324	21,256	0.5%	2,729	75.5	2,106	403	11.9	15.3	-	-	-
Feb-96	20,480	20,205	2.9%	2,741	74.6	3,288	495	8.3	17.0	-	-	-
Mar-96	15,432	15,447	-17.4%	2,628	75.8	3,115	2,921	8.1	12.0	-	-	-

Sources: Northwest Power Pool, Bonneville Power Administration, InterCompany Pool, US Department of Energy, *Clearing Up*.

The settlement of the delivery charge, including the right to buy the delivery facilities, was very important to the Requirements Customer Coalition, Larsen said. On the other hand, the requirements customers "had to swallow hard" on another issue–placing the cost of General Transfer Agreements in power rates rather than transmission rates.

The GTAs are the contracts between BPA and IOU owners of transmission paths needed to deliver federal power to some federal customers. The GTAs are functionally transmission contracts, but BPA transmission customers who do not buy power from BPA did not want to pay for the GTAs. "We agreed to ignore what we thought was the functional equivalency of transmission of the GTAs, and allow the cost to be moved to power," said Larsen.

The requirements customers' experience is characteristic of the trade-offs made by all the parties to the settlement agreement, Larsen noted. "Some of the issues that were fought about mattered a great deal to a couple of parties, and not at all to others. Everybody's making a judgment about what they have at risk, what they have to gain, whether it makes sense to fight," he said. "I don't see anybody saying, we took home the whole shopping cart and everybody else paid for it. On the whole, it makes sense to get some certainty" on the outcome of the rate case *[Pamela Russell]*.

[18] Puget Contract for Intel Includes Unbundled Wheeling ■ *from [3]*

Puget Power last week asked the Washington UTC to approve a special contract for a new industrial customer. The contract offers an unbundled rate that is based on market pricing. Puget would provide 5 MW within 5 years for the $100 million office complex and computer assembly plant being built at breakneck speed by Intel Corp. in Dupont, south of Tacoma. The UTC has set the matter for further hearings.

UTC case strategist Ken Elgin said the agreement constitutes the "the first time in the state of Washington that an IOU has offered to provide unbundled wheeling service to a customer."

The contract, signed in February and made public last week, outlines a five-part rate. First is an energy charge that allows for "the recovery of variable energy charges by providing a rate that is calculated directly from (Puget's) variable energy costs." This charge is free of associated embedded energy costs.

Second is a fixed, 10 mill/KWh rate designed to recover Puget's fixed costs for non-production facilities. The third component is a 2 mill/KWh interstate wheeling rate aimed at recovering any wholesale wheeling costs Puget incurs delivering service over BPA lines. This charge is based on BPA's current IR rate and a customer load factor of 65 percent. Next is a 1.0232 loss factor charge to cover high voltage line losses, and lastly, a set of contingency charges to cover unforeseen changes in load, load factor or capacity factor.

The agreement also has a price cap. If the charges Intel would have paid under the normal tariff are less than those under the special contract, Intel will get a credit for the difference.

Elgin said another notable element of the agreement is that Intel will pay for non-firm energy, but Puget will be providing firm service. This is one of the issues staff brought up at last week's UTC hearing. "If you want firm service, you should pay for some capacity," Elgin said. "In the gas industry, if someone buys non-firm energy, that's what they pay for."

Elgin said UTC staff also want to determine if the contract falls under the commission's discrimination statutes. "If they're going to offer wheeling services, should this be offered under a tariff or only under a special contract?" Another matter is whether the rate is compensatory, or cost-based. Commission rules require that special contracts be cost-based and non-discriminatory, he noted.

Puget argues the contract recovers all costs associated with the service and that it is not discriminatory. In her transmittal letter, Puget director of rates and regulation Christy Omohundro said the rate in the agreement "makes a greater contribution to recovery of the fixed costs not associated with the production of electricity than do existing rates for comparable services."

None of Puget's other industrial customers testified at the hearing, but Kevin Owens, Puget director of commercial/industrial markets, said "everybody is interested in getting to market pricing earlier rather than later." He said Puget's customers are better off having Intel here than not because of the contribution Intel will make to the costs of "running our business" that would otherwise have to be paid by existing customers. He said Intel, which initially wanted to pay no more than 27 mills/KWh, accepted risk in subjecting itself to the fluctuations of the secondary market. The rate is capped at about 40 mills, he acknowledged, but it is an annual cap, and Puget views it as highly unlikely that the average secondary market price will exceed the agreement's rate over an entire year.

Puget: "Everybody is interested in getting to market pricing earlier rather than later."

Elgin said it is unclear from the agreement if Intel would have direct access to the market, but Owens said that while the "basis of the contract is market pricing," Intel will not have access to the marketplace. Rather, "the pricing is representative of the marketplace."

In her letter, Omohundro said the basis for invoking the special contract rules has to do with a meeting last summer in which Intel "presented elements it considered critical to its decision to locate in this state. These elements included electricity service priced according to its particular circumstances. Intel represented that it would not move into the area unless this request was met...

"The rates in Puget's filed tariffs are in excess of those requested by Intel," Omohundro's letter continued. "Thus, Intel would locate in this state only if

(Puget) offered a special contract." Omohundro also cited this point in a section of her letter headed "agreement does not result in discrimination..." Other points included Intel's prospective load, the "benefits to both parties" provided by the contract, and the fact that the state has determined Intel is eligible for high technology B&O tax credit and a sales tax exemption.

Intel spokesman Dave Fisher said "utility rates are an important part of our location decision, but they are not the only factor we look at."

Fisher said Intel expects to have 1,000 employees when the plant goes on line in July, 1996. Future plans call for two more office buildings and another factory that would bring the total investment at the 185 acre site to $250 million and total employment to 6,000. While Intel is known as a computer chip maker, neither of the factories will be chip plants *[Ben Tansey]*.

[19] Pacific PUD, Umatilla Debut Internet Access Services ■ *from [7]*

Although many electric utilities in the Northwest and elsewhere have established a cyberspace presence on the Internet's World Wide Web (see the Hub section of NewsData's NW Enernet Web site, at http://www.newsdata.com/enernet), few have ventured into the business of offering Internet access. Washington's Pacific County PUD and Oregon's Umatilla Electric Cooperative are now among those few.

"I think the Internet can be a great benefit to our customers," said utility engineer Marc Wilson of Pacific County PUD, "and I think, through the PUD, we can bring that service to our customers a lot more effectively."

For Umatilla, Internet service "is consistent with everything we've tried to do here, bringing service to people in small towns. . . bringing things to this community they might not otherwise have," said communications and marketing director Pamela Harrington.

Pacific began its process in December by surveying its approximately 15,000 customers about their interest in Internet service from the PUD. (At the time there were no local Internet providers within the southwestern Washington county, according to utility engineer Marc Wilson. Since then two have set up shop). A total of 225 people--many already linked to the Internet via such commercial services as America Online, Prodigy and CompuServe--responded favorably to the PUD survey and a subsequent newspaper article. So PUD staff did background work, and received commission approval to offer Internet access. The tentative starting date is early May.

Wilson emphasized that the PUD's Internet service will be "completely disjointed from the electric part [of the utility]. The revenue we get from the service will go right to that department and make it self-sustaining. In theory, we'll make just enough to keep the hardware stuff updated."

Initially at least, Pacific will rely heavily on its service provider, Portland-based Transport Logic, for hardware troubleshooting and toll-free technical support for participating PUD customers, along with provisions for Internet data lines. Pacific will pay the phone company for the standard "dial-up" lines used by customers. "Basically we market the program and bill our customers," said Wilson, although Pacific eventually expects to expand its hardware and technical support role. The PUD also plans to develop a county-oriented Web home page.

The PUD will charge customers a $40 installation fee ($25 during the first 60 days of operation), plus either of two options: $15 a month for 30 hours on the Internet or $25 a month for 70 hours, plus 75 cents an hour for any additional time. These rates are competitive with the two existing providers in Pacific County, according to Wilson.

Within the first two years, he said, the PUD hopes to sign up 500 customers for Internet access. The great majority should be residential accounts, although businesses can hook up, too.

Umatilla's Internet service, expected to be available later this month, stems from the strategic plan developed last year by the utility, according to Harrington. The information systems department was asked to explore Internet possibilities, and from that came an agreement with Bellevue-based service provider Brigadoon.com to furnish Internet access in northeastern Oregon. This local-calling service will be available first in the Hermiston area, followed by Pendleton and Boardman and eventually all of Umatilla County; neighboring Morrow and Wallowa counties may be added later.

All Internet services will be administered by Brigadoon.com and Rural Telecom Co., a wholly owned subsidiary of Umatilla Electric that also provides direct digital television satellites and programming. As such, Umatilla Electric rates will be unaffected, Harrington said.

The Internet access fee will be $18 a month for unlimited time--$15 for students, faculty and staff of local schools. Although there is no sign-up charge, Harrington said customers must pay the first month in advance to get the necessary software. These rates, she added, are lower than those for the two current local service providers.

Umatilla expects considerable interest in the Internet service. A late 1995 survey of 300 co-op members revealed that 42 percent had home computers, of whom 19 percent were on-line in some fashion. Of the remaining 58 percent, nearly half, 26 percent, said they would or might buy a home computer within a year.

The co-op also is looking to set up a community Web page with "a hometown flair," Harrington noted *[Mark Ohrenschall]*.

[20] BC Hydro Buying Back Stock from Fired Chairman ■ *from [8]*

Former BC Hydro chairman John Laxton and his daughters have agreed to turn over control of their 1.5 million shares in IPC International Power Corp. to BC Hydro for the original purchase price of $1.00 US.

■ Monday, July 29, 1996 ■ No. 735 ■

CLEARING UP

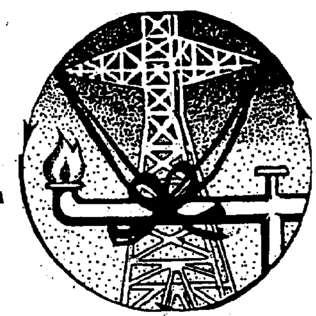
NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] Word of Portland General Merger Confirmed: New Partner is Enron



After much conjecture, PGE announced last Monday it has signed a definitive agreement to merge with Enron Corp., the largest natural gas and independent wholesale electric power marketer in North America. The announcement puts an end to speculation about PGE's future, provides Enron a desired presence in the electric business and PGE access to natural gas. *The somewhat unlikely but apparently made-in-heaven marriage is described at [25].*

[2] Tacoma Offers Market Power Rate to Large Industrial Customers

Tacoma City Light will soon begin offering market-priced power to its industrial customers. On July 23 both the Tacoma Public Utilities Board and the Tacoma City Council approved the utility's proposal for non-portfolio power service. Tacoma's largest industrial customer, Occidental Chemical, will begin receiving power under the new rate Aug. 1; the four others will have access to it in 14 months. *Tacoma jumps on the market power bandwagon at [26].*

[3] Fishing and Conservation Groups May Lead MOA Court Challenge

Fishing and conservation groups may soon go to court to fight the $435 million interagency fish cap agreement reached earlier this year. The groups say the agreement may slash salmon spending by nearly $100 million. BPA attorney Sarah McNary says the groups have seriously misunderstood the way the memorandum of understanding will work, while five government agencies and Northwest tribes have been working hard to come up with a solution that everyone can live with. *A possible snag for the fish cap memorandum of understanding at [17].*

[4] Tree, Unusual Operating Conditions Blamed for July 2 Outage

If a tree falls in Idaho, can it be heard by a California electric power user? That's a question for philosophers, but under the right conditions, if an Idaho tree causes a power line to arc, that Californian will surely know about it, as will some 2 million other Western power users. The Western System Coordinating Council determined a tree-induced flashover combined with some unusual operating conditions to cause the July 2 tion of paying market-based rates for some of the power they buy from the utility, to make it eligible to smaller loads once the merger is approved. PGE will also accelerate work on a draft direct access tariff it has developed--schedule 77--for industrial, commercial and general service customers, and will file it by the end of the summer.

Alexanderson said the utility is also looking at changes to residential rate schedules "to help them pay less," such as time of day rates that could save up to $15 million annually and a direct access rate design. PGE hopes to have the latter developed this summer, for implementation next spring. And there are plans for other "yet-to-be-designed pilots that would step toward direct access," he said. Enron has participated in such experiments all over the country, Alexanderson added, and PGE hopes to "pick up on their expertise."

'We wanted to be the Enron of the electricity business.'

But the major benefits from the merger, which Alexanderson said will affect all utility customers and not just PGE's, will come from how the merger will accelerate the restructuring of the industry. PGE is still committed to participation in Indego (CU No. 733 [3/22]), he said, and Enron supports it as well. "It's easier access to power markets for customers."

While the merger announcement took some industry insiders by surprise, Alexanderson told *Clearing Up* it's the culmination of a strategic review process PGE went through two years ago. At the time, Alexanderson said the question under discussion was "what's the future going to be like when we get there?" What the participants concluded, he said, was that there would ultimately be direct access for all customers, and that the electric and natural gas markets would eventually merge. "There were efficiencies in offering both," Alexanderson said. "We decided we needed gas."

Alexanderson added that PGE also discovered it could sell and trade electricity without actually owning it--and as the most successful natural gas trader, Enron was the obvious model. As a result, some PGE representatives visited Enron; and "we recognized several years ago that we were on the same course," Alexanderson said. "We wanted to be the Enron of the electricity business."

As the pace of change in the utility business accelerated, PGE's attraction to Enron increased. At the July 22 teleconference, Portland General president and CEO Ken Harrison said the two companies' discussions had been more along the lines of seeking joint ventures rather than a merger. But talks accelerated six months ago, as the companies recognized in each other "an absolute parallel vision about how the industry would unfold," he said. In addition, Alexanderson said, Enron decided it wanted a presence in the electric utility business and started seriously looking at about a half dozen companies. "We were on their list."

With the proposed merger, PGE is joining forces with a partner "that has all the capabilities we lack"--and vice versa. Enron wants a retail electric market, and PGE is an end-user marketer with over 600,000 retail customers. In addition, Alexanderson said, there's a market for customers who want power supply and construction of an infrastructure to deliver it; as an up and running distribution company, PGE will be "useful in marketing to the eastern region of the country."

Although it is a national leader in virtually every facet of the natural gas business, Enron has purposely stayed away from retail distribution, and it owns no local utility subsidiary. When asked about the company's change of heart at the July 22 teleconference, Enron Capital and Trade vice president Jeff Skilling explained that "There has been a big change in retail markets in the past six months. Both electric and gas markets were totally closed to competition, but all that is changing. Because of that, there has been a significant change in our thinking that is consistent with those changes."

While some competitors might not want to serve residential customers, Enron is eager to do so, Skilling said. "Our sense is the entire retail marketplace will be opening." Enron and Portland envision energy services will be sold somewhat like telephone services, with a single provider moving commodities through the lines of a local distributor to customers. Lay added that the companies presume that competition "is opening quicke than people think."

Executives from both companies hope to have the merger approved within 12 months. It is unclear, however, how FERC will deal with the proposal. Spokeswoman Barbara Connors said FERC doesn't have the same regulatory jurisdiction over natural gas pipeline companies like Enron as it does over electric utilities. But the overriding phrase in the Federal Power Act, Connors said, is "is it [the merger] in the public interest?" FERC has used specific criteria to determine that, but in January the commission announced a notice of inquiry concerning its merger policy under the Federal Power Act. Connors said public comments on the NOI have been received, and FERC is reviewing them; when and if the criteria for evaluating mergers will change is not yet clear. Regardless, "FERC looks at each [proposed merger] as an individual case," Connors said. "This one is certainly different"
[Jude Noland and Arthur O'Donnell].

[26] Tacoma Offers Market Power Rate to Large Industrials ■ *from [2]*

Tacoma City Light has received approval for a new rate schedule that gives its five largest industrial customers access to market-priced power. On July 23 both the Tacoma Public Utilities Board and the Tacoma City Council approved the utility's proposal for non-portfoli power service, which unbundles transmission, distribution and other charges from the cost of the electrons themselves. That cost will vary depending on the market price of power Tacoma purchases, either from BPA or other suppliers.

Large industrial customers will be able to shift a portion of their load to non-portfolio power service. Charlie Black, Tacoma's assistant power manager for power supply, said Tacoma's largest industrial customer, Occidental Chemical, will begin receiving power under the new rate Aug. 1 when the chlorine producer will shift a significant portion of its load to non-portfolio service. Tacoma's four other large industrial customers--Simpson Kraft Co., ELF Atochem North America, Praxair and Stone Consolidated paper mill--will be able to start receiving power under the non-portfolio power rate as of Oct. 1, 1997; Black expects them to shift about 75 percent of their loads to the non-portfolio service.

Tacoma City Light will purchase the power for customers under the non-portfolio power service, Black said. "We'll be the power supplier, but we'll be doing it in a much more responsive way." If a customer wants fixed price power or a floating rate, "we'll go out and get it for them."

Black said Tacoma is able to offer the non-portfolio power service because of a "package arrangement" Tacoma reached with BPA. Tacoma signed amendatory agreement number seven to its 1981 BPA power sales contract--option two of the four choices BPA offered to all of its public utility customers--which allowed Tacoma to reduce the amount of power it's required to purchase from Bonneville. In addition, Tacoma executed a five-year surplus power sales contract with BPA, which Black called a "companion transaction" to the amendatory agreement.

As of Aug. 1, Tacoma will purchase about a third less Bonneville contract power than previously planned, down from 215 aMW to about 136 aMW. In 14 months, that amount will decrease again, to 78 aMW. At the same time, City Light will buy market-rate power from BPA under the surplus power contract to serve Occidental Chemical. After 14 months, Tacoma's four other large industrial customers will have access to market priced power, which Tacoma will be able to purchase from suppliers other than BPA.

Black said the "substantial" surplus power sales contract was important in securing the reduction in power Tacoma would purchase from BPA under its 1981 power sales contract. Stretching out the reduction over 14 months also turned out to be to everyone's benefit. "Bonneville needed the revenue near term, and [four of] our industrial customers were willing to defer the market access for 14 months," Black said.

Other changes also made the new arrangement more attractive to BPA, according to Black. Under Tacoma's original power sales agreement with BPA, the utility had the ability to increase or decrease its purchases annually, based on its projected loads and resources for the year. Black said this placed some uncertainty on Bonneville. To make the arrangement more acceptable, Tacoma made "some substantial take-or-pay commitments." All of the power under the surplus power sales agreement is take-or-pay, Black said, as is a large portion of its purchases under the amendatory agreement. "Tacoma and our customers take more risk to give Bonneville greater certainty...It's more of a pure commercial transaction with Bonneville."

Also important to Tacoma, said Black, is how the non-portfolio power service will affect the utility's other customers. Tacoma expects to save about $3 million annually through the reduced contract power purchases from Bonneville; Black said that's about a 6 percent decrease in power supply costs to serve non-industrial customers. "This is evidence of how Tacoma City Light as a municipal entity is taking aggressive action to meet customer needs," Black said. "We're ahead of the rest of the industry" *[Jude Noland]*.

[27] House Passes Energy and Water Funding Bill ■ *from [6]*

After nearly 12 hours of debate that extended past midnight Wednesday, the House on Thursday voted 391-23 to pass a $19.8 billion funding bill for the government's energy and water programs. The bill—shepherded by Appropriations Committee members John Myers (R-IN) and Tom Bevill (D-AL), who both announced their retirements this week--earmarks $382 million for nuclear waste management efforts and $225 million for fusion energy research; both represent about a 5 percent cut from last year. By contrast, renewable energy R&D funding was cut by more than 36 percent from last year's levels, "and that is a critical failure in this bill," Rep. Maurice Hinchey (D-NY) said.

In an interesting aside, Rep. Richard "Doc" Hastings (R-WA) took the floor during the debate on the bill and stated that the Douglas County PUD is currently "loses one-fifth of its energy-carrying capability as a result" of federally mandated fish flows. He said language in the Senate report would encourage BPA to enter into an energy exchange with non-federal hydro projects on the Columbia affected by these flows. The Senate urges BPA to provide winter energy for these projects in return for an equal amount of energy during fish flush. He said this is an issue that BPA and non-federal projects should resolve, but that he would be willing to work with his colleagues toward a solution if convinced that "BPA is not negotiating in good faith."

The energy and water bill was the last in the House related to the FY 1997 budget. Final approval of the budget may be far down the road, however, as the Senate has only passed three of the 13 bills it needs to process--military construction, defense and agriculture--and the Administration has already indicated it will veto some of the bills if they survive in present form. However, the Senate was slated to begin deliberations on the Energy and Water bill last Friday *[Mathew Trask]*.

[28] WSCC: Unusual Operating Conditions Made Outage Worse ■ *from [4]*

Power traveling last July 2 along a 234-mile, 345 KV PacifiCorp transmission line just inside Idaho's eastern border arced to a tree that had grown too close, causing a short circuit that quickly left nearly 2 million people

Power Administration, all petitioned the BCUC for a full public hearing.

"BC Hydro's desire that it be given what it demands with little if any review is not acceptable," the industrial customers said in their submission. They told the BCUC that in their opinion, the Seven Mile Project was too expensive compared to alternatives and that "BC Hydro's financial analysis cannot be relied upon." Added the IPABC in its submission: "On the basis of its experience with BCH's creative approach to financial analysis, the IPABC has no confidence in the financial information BCH has presented in relation to Seven Mile." The BCUC has ordered that the full hearing begin in Vancouver on Feb. 10, 1997 *[B. L.]*.

[26] Edmonton Power to Offer Market Pricing to Larger Customers ■ *from [10]*

Edmonton Power, Inc., is developing a 1997 rate proposal that will offer market pricing to its commercial customers. The municipal utility, which serves 250,000 customers in and around Edmonton, Alberta, predicts the new pricing strategy could save commercial customers as much as $12 million in 1997.

Edmonton Power spokeswoman Michele Cadario said that's the potential savings available if the utility's commercial customers "decide to follow certain options" the utility will be offering next year. Details of the pricing strategy aren't available yet, but the utility says the pricing package will rebalance its commercial rates to reflect market prices. Rates will offer more flexibility in price, products and services. "We'll be getting customers options packages that best suit their needs, such as time of use [rates]," Cadario said. Other options may include real time pricing, which Edmonton Power already offers to hospitals, and energy efficiency packages.

One reason Edmonton has decided to offer market pricing is because of the dramatic changes that have occurred in the province's electric industry since establishment of the Alberta Power Pool, through which all utilities in the province now purchase and sell power. "The Power Pool has made big utilities functionalize," Cadario said, so that the distribution side of Edmonton Power and other provincial utilities buy their supply from the Pool--priced on an hourly basis--rather than the generation side of the respective utility. "The direction is to deregulation," Cadario said. "Also, we want to more than meet our customers' needs; we want to anticipate them. Our research has shown they want choice, they want options and they want to know more about their energy consumption and costs."

The "rebalanced" rate package, however, doesn't guarantee all prices will be lower. "In some cases, [current] rates may be lower than market prices," Cadario said. But customers could still save money by adopting some of the utility's new options. Cadario added that the $12 million reduction will come out of the utility's revenues, but Edmonton Power hopes to make it up by offering new products and services to customers. And the utility's residential customers will see a third year with no rate increases.

Since Edmonton Power's parent company, EPCOR, is owned by the city of Edmonton, the rate proposal must be approved by the Edmonton City Council. Edmonton Power will present its final proposal to the city council in January and hopes to implement the new rates in March 1997 *[Jude Noland]*.

[27] Consultant To Review Alcan Water Release ■ *from [11]*

A consultant from Saskatchewan has been named by the BC government to spearhead a comprehensive review of Alcan Aluminum Company's recent release of high volumes of water from its Nechako Reservoir and Kenney Dam in central BC, that critics claim caused ice jams and flooding downstream. Environment minister Paul Ramsey said that Brian Scarfe of BriMar Consultants, who has done previous studies on the Nechako Reservoir, will examine the circumstances that led to November's flooding downstream in major communities such as Vanderhoof and Prince George where property damage could reach into the millions of dollars.

The report is expected to identify the roles and responsibilities of Alcan, the BC government, the federal Department of Fisheries and Oceans and the Nechako fisheries conservation program. Alcan increased its outflow from the reservoir to about 8,000 cubic feet per second to rid the reservoir of heavy autumn rains. The spill was about eight times normal rates.

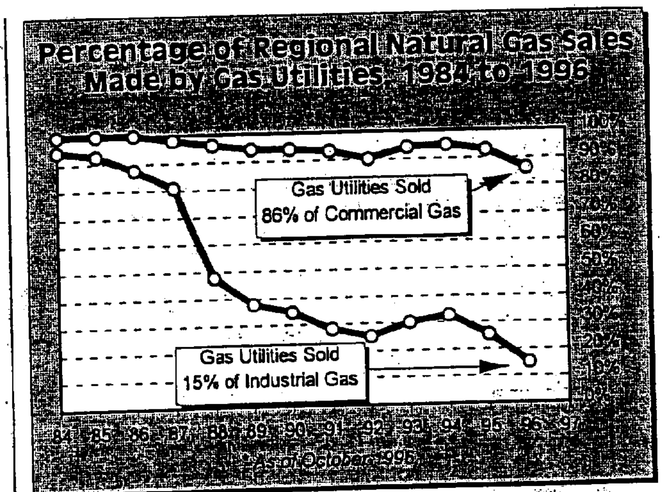
The high-rate release coincided with unusually cold temperatures which caused additional ice jams and reflooding, but Alcan spokesman Ray Castelli said the release was within allowable limits--and that Mother Nature is to blame. "If we had held onto the water, we may not have been able to control it in the spring runoff, which could have been a catastrophe," he added. Castelli also said Alcan welcomes the review.

Alcan uses the Nechako Reservoir to fuel its hydroelectric plant at Kemano on the west coast which provides the electricity for the company's large aluminum smelter at Kitimat. Two years ago the BC government killed Alcan's controversial Kemano Completion Project, a $1 billion undertaking that would have added to the original Kemano power plant, built in the 1950's along with the Kenney Dam, that created the Nechako Reservoir. At the center of the KCP issue were concerns over the environmental impacts on the Nechako River, which flows eastward into the Fraser River *[B. L.]*.

Northwest Numbers

[13] Restructuring of Natural Gas Industry Continues

The three main regulated utility industries in the United States—electricity, natural gas, and telecommunications—have undergone substantial restructuring as a result of technological advances and new public policy approaches to utility regulation. Nowhere can this be seen more clearly than in the natural gas industry. Prior to federal and state regulatory changes, natural gas retail utilities bought gas from pipeline companies and then resold it to their end-use customers. Now, gas utilities often provide only a transportation service. Industrial and commercial end users increasingly buy their own gas directly from producers or brokers, not the utilities. The chart shows that in 1984, all commercial and most industrial gas was resold by utilities; today about 86 percent of commercial gas and only 15 percent of industrial gas is resold by utilities. Btus of energy are still getting to the job, just in a different way *[Steve Aos]*.



Regional Natural Gas Statistics

	Total Natural Gas Use By End Users (Excluding Electric Utility Use) BCF	% Chg	Residential BCF	Commercial BCF	Industrial BCF	Electric Utility BCF	Spot Market Price at Rocky Mountains $/MMBtu	Average City-Gate Rate $/MCF	Average Residential Rate $/MCF
Annual Data									
1980	241.7	-	55.5	51.7	134.5	1.3	-	-	5.36
1985	246.2	-	62.2	63.5	120.4	0.1	2.17	3.80	6.75
1986	215.7	-12.4%	56.6	57.4	101.8	0.1	1.74	3.15	6.17
1987	233.6	8.3%	55.6	56.7	121.3	0.1	1.27	2.48	5.84
1988	256.7	9.9%	63.5	63.3	129.9	1.8	1.41	2.50	5.92
1989	277.3	8.0%	69.6	67.8	139.9	21.3	1.29	2.33	5.66
1990	290.6	4.8%	72.3	67.7	150.6	7.6	1.33	2.11	5.43
1991	317.9	9.4%	82.8	73.6	161.4	11.0	1.26	2.07	5.20
1992	307.4	-3.3%	75.8	66.3	165.3	19.6	1.45	2.06	5.39
1993	356.0	15.8%	95.6	78.3	182.0	21.1	2.02	2.41	5.62
1994	370.3	4.0%	94.3	76.0	200.0	28.6	1.53	2.59	6.04
1995	382.1	3.2%	93.8	75.3	212.9	25.5	1.07	2.25	6.10
12 Months Ending									
Sep-96	415.4	6.8%	104.9	81.4	229.0	21.3	-	-	5.90
Monthly Data (year-to-year percent change)									
Oct-95	27.7	5.2%	4.2	4.1	19.4	4.1	1.05	2.12	6.54
Nov-95	35.1	-6.2%	9.7	7.1	18.4	2.0	1.16	2.21	5.94
Dec-95	41.7	-12.6%	13.3	9.4	18.9	0.5	1.16	1.95	5.76
Jan-96	48.3	0.0%	16.4	11.6	20.3	0.1	1.16	2.01	5.54
Feb-96	49.8	26.2%	18.2	12.5	19.0	0.0	1.32	2.06	5.41
Mar-96	41.9	6.7%	13.5	9.7	18.7	0.1	1.10	2.07	5.61
Apr-96	34.4	1.7%	9.6	7.2	17.6	0.0	1.05	2.24	5.77
May-96	32.9	20.1%	7.7	5.9	19.3	0.0	1.05	2.33	5.90
Jun-96	26.2	13.7%	4.6	4.5	17.2	0.0	1.17	2.96	6.28
Jul-96	24.9	18.8%	2.8	3.2	19.0	2.8	1.16	3.80	6.98
Aug-96	25.4	12.0%	2.2	3.0	20.3	5.8	1.24	3.12	7.39
Sep-96	27.1	19.4%	2.8	3.4	20.9	6.1	1.20	2.80	7.03
Oct-96	31.6	14.2%	4.6	4.6	22.4	3.9	1.53	2.05	6.30
Nov-96	-	-	-	-	-	-	2.57	-	-
Dec-96	-	-	-	-	-	-	3.70	-	-

Sources: US Dept. of Energy, Natural Gas Week. The data cover Washington, Oregon and Idaho.

■ Monday, May 5, 1997 ■ No. 774 ■

CLEARING UP

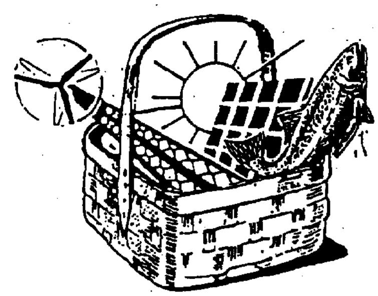
NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] New Broker to Offer 'Environmentally Friendly' Bonneville Resources



BPA last week announced it has signed a brokerage agreement with a non-profit environmental trust that will market "environmentally friendly" BPA resources and reinvest the money in fish and wildlife and other environmental projects. Environmental Resource Trust, which was founded with help from the Environmental Defense Fund, will fund these programs with the proceeds of BPA's brokerage fee and the amount of any above-market premium it secures from new clients. ERT has a unique approach and the parties believe it will be able to find clients BPA cannot, especially as new retail markets start to open. *Exploiting the market for environmentally friendly resources, at [16].*

[2] Oregon PUC Staff Recommends Approval of PGC-Enron Merger

It appears the union of Portland General and Enron Corp. has passed its final hurdle: the Oregon PUC staff is now recommending approval. Parties to the proposed merger met last week to review a new stipulation agreement; at the conclusion of the meeting, PUC staff gave its long-awaited blessing. *PGC and Enron march closer to the altar at [22].*

[3] Two More Snohomish PUD Customers Opt for Market-Based Rate Schedule

Snohomish County PUD has signed two more power sales contracts under its Schedule 50, which provides industrial customers with the PUD's equivalent of market-based rates. Achilles USA will receive 3.5 aMW, and Fluke Corp. will receive 3.8 aMW under contracts approved late last month. That brings the total energy committed under Schedule 50 to over 95 aMW; the PUD says it has customers interested in signing up for the remaining 30 aMW. *Snohomish customers move to market rates at [17].*

[4] Most Oregon Coho Miss ESA Listing For Now

NMFS and the state of Oregon came to a last-minute agreement that kept coastal coho populations off the ESA's endangered list by relying on the good faith intentions of the state's salmon restoration initiative. NMFS has reserved the right to list if Oregon doesn't

Monday, August 11, 1997 ▪ No. 788 ▪

CLEARING UP

NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] Puget Direct Access Pilot Program Gets Washington UTC Approval

The WUTC has given its OK for Puget Sound Energy's customer choice pilot program. The pilot, the work of a collaborative group, was requested by the

commission last October when it approved Puget's Optional Large Power Rate schedule, a market-based rate tariff designed for high voltage loads of 2.4 aMW or more. Up to 10,000 mostly residential PSE customers will be eligible for the new direct access pilot, which is aimed at gathering experience on what a fully open access environment might be like. *Puget's pilot at [18].*

[2] Will Lutgen Resigns as NEEA Executive Director

Five months into the job, Will Lutgen has resigned as executive director of the Northwest Energy Efficiency Alliance. Lutgen cited personal reasons for his decision, which surprised and disappointed board members of the regional market transformation collaborative. The Alliance's executive committee has recommended deputy director Margie Gardner for the executive director position. NEEA officials said Lutgen's departure won't appreciably slow the Alliance's work, although one board member suggested the abrupt resignation should prompt some introspection within the relatively young organization. *Shake-up in the Alliance, at [21].*

[3] Few Salmon Affected by Bonneville Dam Fish Ladder Snafu

After sending down divers and using hydraoacoustic scanners, the US Army Corps of Engineers said there is little evidence that many salmon are trapped in an auxiliary water system at Bonneville Dam's Powerhouse 2. Flushing out the system only produced one steelhead, and the Corps is ready to put the north fishway back in operation. Steelhead are already showing up in droves, and to avoid undue risk to fish, BPA is waiting for the Corps to certify the passage system safe before it cranks up two or three turbines. *Both salmon and managers luck out at [20].*

[4] Clatskanie to Lose Load to BPA Under James River/Enron Deal

Clatskanie People's Utility District will lose its largest load in 2001--provided Oregon has okayed open access--due to an agreement reached in June between James River Corp. and Enron Capital and Trade. Under the agreement, Enron will be handling the energy needs for all of James River's manufacturing facilities worldwide. That includes the corporation's Wauna, OR pulp humans alike is linked to the well-being of the environment around us."

Since 1994, Clark has served as assistant director for USFWS' ecological services division and was responsible for the implementation of the Endangered Species Act nationwide. Before coming to the USFWS, Clark served as fish and wildlife administrator for the Department of the Army and natural/cultural resources coordinator for the National Guard Bureau. She received a BS in Wildlife Biology from Towson State University and a MS in Wildlife Ecology from the University of Maryland *[B. R.]*.

Supply & Demand

[16] Clatskanie to Lose Load to Bonneville Under James River/Enron Deal ■ *from [4]*

In June the James River Corp. announced a strategic alliance with Enron Capital and Trade, under which Enron is handling the energy needs of all James River manufacturing facilities worldwide. The new agreement means Clatskanie PUD won't supply power for the corporation's Wauna, OR pulp mill after 2001--if Oregon allows open access by that date. Instead, power marketer Enron will buy Wauna's 100 MW load from BPA, which now sells the power to Clatskanie for delivery to the James River plant.

Under the agreement, Bonneville will provide up to 105 MW of surplus firm power at PF-equivalent prices with delivery beginning on Sept. 30, 2001 and ending on Dec. 31, 2005. The power will still be delivered over Clatskanie's system, and PUD manager Liston Darby said the utility has broken out a delivery charge of 3.5 mills for the new arrangement. Darby finds it interesting that the surplus firm power Bonneville will be delivering is the same non-surplus power that Clatskanie is buying now at a PF rate for the James River mill.

'You can't count on BPA when they basically become your competitor.'

Spokeswoman Dulcy Mahar said BPA reached an agreement with Enron only after it became apparent that Clatskanie had lost the load because of James River's alliance with Enron. "We didn't profit from the deal; we just wanted to retain the load [for the region]," Mahar said. And Carol Fleischman, BPA account executive for Clatskanie, said the agency has "done what [it] can to make sure there aren't any implications that would be harmful to Clatskanie."

But the PUD still isn't happy. "They're doing with Enron what we attempted to have them do five years ago when James River said they were shopping," said Darby, who claims the PUD has been warning Bonneville for five years that they were going to lose James River's load if they couldn't come up with a better deal for the facility. "You can't count on BPA when they basically become your competitor," Darby said. "The partnership Bonneville talks about with its public customers--it's more a take-no-prisoners approach. They're capturing load, not earning the right to serve."

Bonneville officials disagree. "Our preference is to work with our public agency customers," said one, pointing to an agreement BPA worked out with the Transition Board that allows the agency to sell up to 500 MW of regional power before the current subscription process is completed. "Theoretically, the Regional Review says we shouldn't be making any sales before the subscription process is completed," said Mahar. But the agency asked the Transition Board for permission to make pre-subscription in-region sales of up to 800 MW after public agency customers told BPA they had customers who would look elsewhere for power if they couldn't reach agreements now on power supply deals beyond 2001--when current contracts expire--rather than after the subscription process. The board gave the okay for 500 MW in sales; Mahar said BPA may go back and ask for more.

Mahar said BPA has just completed such a pre-subscription sale to Benton County PUD. The 20 MW power sales contract runs for nine years, from Sept. 1, 1997 through Aug. 31, 2006. It's a block sale at 100 percent load factor, with 50 percent of the price at a fixed rate and the other 50 percent at a fixed rate in low load hours and a high-load-hour rate indexed to COB/NYMEX prices.

The BPA agreement with Enron also comes out of the 500 MW pre-subscription allotment, however. The Record of Decision on the pre-subscription, post-2001 contracts indicates additional contracts may be "offered to marketers, aggregators and IOUs for surplus power sales or when power is to be delivered to a Northwest load that is currently served by a preference customer, DSI or Federal Agency." The intent of the pre-subscription allotment is to "preclude us from inevitably losing load," Mahar said; and in Clatskanie's case, it was already clear the Wauna mill wouldn't be buying power from the PUD because of James River's arrangement with Enron.

In any case, Clatskanie PUD will "still operate quite well" under the new arrangement, according to Darby; losing the Wauna load is "not a horror story." After dealing with Bonneville, Darby said the PUD started "cutting down its dependence on James River" and now has "other business arrangements" that take up the slack *[Jude Noland]*.

[17] BPA, PacifiCorp, EWEB, SeaWest Invest in WY Wind Project ■ *from [9]*

The first commercial-scale wind-energy project to directly serve the Pacific Northwest is nearing the start of construction, following a series of crucial agreements and approvals in July.

First came the July 8 signing of a development agreement between PacifiCorp, Eugene Water & Electric Board and SeaWest Energy for a 41.4 MW capacity wind farm in the Foote Creek Rim region of south-central Wyoming. Next, on July 17, the federal Bureau of Land Management granted rights-of-way for construction of the wind plant and an associated transmission line. Finally, on July 21, BPA signed a 25-year agreement to buy slightly more than one-third of the power output. Construction is scheduled to start in August, and the project is due to go commercial by late 1998 or early 1999.

Under the July 21 power-purchase agreement, Bonneville will lay claim to 37 percent of the Foote Creek Rim power, or 15.3 MW of the 41.4 MW capacity. It will pay a levelized cost reportedly in the range of 4 cents/KWh to 4.5 cents/KWh.

"This agreement reflects BPA's interest in maintaining our quality of life in the Northwest by continuing to provide clean energy for the region," said BPA administrator Randy Hardy. "We consider this power purchase to be a meaningful part of BPA's energy portfolio and plan to continue to pursue our renewable energy responsibilities."

Of Bonneville's Foote Creek Rim power purchase, Salem Electric will receive 7 a MW under a green-power purchase deal with BPA. With their retained shares--PacifiCorp will keep 19.6 MW of project capacity and EWEB 6.5 MW--both utilities plan to look into green-power marketing opportunities of their own. PacifiCorp project manager Gail Miller said the IOU has already had interest in Foote Creek Rim energy. EWEB, meanwhile, expects to develop a green-power program among its retail customers for the slightly less than 3 aMW of Foote Creek Rim power anticipated to figuratively flow to Eugene each year. Although no decisions have been made and customers will be consulted for their opinions, EWEB's Ken Beeson said utility officials are considering selling 100 KWh monthly blocks of wind energy--priced to cover the higher costs, perhaps $2.50 to $3 for each such block. "We think there's a pretty good level of interest in our community" in buying green power, he said.

Neither utility has immediate plans to pursue other wind-energy projects. Both PacifiCorp and EWEB want to learn from this initial endeavor in Wyoming's cold and windy climate.

Under the permit conditions, the wind farm eventually could be expanded to as much as 500 MW capacity noted Walter George, project leader for the BLM's Rawlins District Office.

The Foote Creek Rim project has broad popular support in Wyoming, according to George. Local and state governments, nearby residents and the Wyoming Outdoor Council, an environmental group, are among those who have expressed support, although a smaller environmental group remains opposed. The project would generate an estimated $575,000 in one-time impact assistance payments, as well as $2.3 million in sales and use taxes in the first two years and $1.1 million in property taxes in the first three years. "It will have a very significant impact on the revenue stream of the county," said George *[Mark Ohrenschall]*.

Courts & Commissions

[18] Puget Direct Access Pilot Program Gets WUTC Approval ■ *from [1]*

The WUTC on Aug. 1 approved Puget Sound Energy's customer choice pilot program. Under the two-year pilot, up to 10,000 customers in the Bremerton and Mt. Vernon areas, as well as some randomly selected from eastern zones in PSE's territory, will be eligible to buy their electricity directly from other suppliers.

The program has room for approximately 9,000 residential customers, 1,200 non-residential small business clients, 76 midsize businesses and 64 larger firms. Puget's residential customers currently pay about 5.8 cents/KWh for power. Under the pilot, they will continue to pay Puget about 3.2 cents/KWh for delivery.

Among the larger customers, current primary and secondary voltage customers (Schedules 26 and 31) can take up to one-third of their load to market; high voltage customers can shop around for as much 5 aMW. Puget anticipates the pilot will put a total of between 30 aMW and 35 aMW on the market.

During the collaborative process that devised the pilot, there was talk of creating a 9 percent discount for residential and small commercial customers as an incentive, with the cost shared evenly among Puget shareholders, ratepayers and marketers. "The idea is that everyone is paying something to learn," said James Heidell, Puget's director of state and federal regulations. As it worked out, Puget is building in a 6 percent discount to the delivery charge, but whether customers realize the remaining 3 percent will be up to individual marketers.

Some suppliers have complained the pilot is not big enough to make participation worthwhile, and others argued the discounts do not create a large enough incentive for customers. But the WUTC regards the pilot as experimental, less a "test of competition" than of the "practical issues and problems" that need to be worked out before full open access can be implemented.

"The collaborative members agreed that since this is a controlled pilot, it can't test the way competition is going to work," Heidell said. "What we can test is the operational aspects. It's not that this is not competition, but it would not be safe to draw from the pilot's outcome broad conclusions about how competition will work on a larger scale.

Heidell said Puget hopes suppliers will participate because they see that "it is worth an investment in the area to get a foot in the door, get name recognition and to get some experience in the area." Supplier participation has been a problem for Washington Water Power's customer choice program, MOPS, so much so that the IOU deferred the program aimed at residential and commercial customers. Only two suppliers signed up for MOPS. Heidell said he expects at least four or five suppliers to sign up for Puget's pilot.

The deadline for suppliers to sign up is Sept. 16, a date designed to leave a two-month window for advertising prior to the Nov..1, 1997 start date. The pilot will run through December 1999.

Puget said the pilot will cost it about $4 million, not including administrative costs. Puget will absorb a half million dollars in lost revenue, but another million dollars will be met with some funds from the IOU's recent conservation settlement. Puget will petition to defer the remaining $2.5 million *[Ben Tansey]*.

[19] PGE Files Details of Customer Choice Plan with Oregon PUC ■ *from [6]*

In July PGE announced it was developing a program that would allow customers in four Oregon municipalities to choose their electricity supplier. On Aug. 1, the utility provided additional details on its Introductory Customer Choice Program in a filing with the Oregon PUC. If the plan is approved by the commission, up to 15 percent of PGE's load could be served by another provider by December of this year.

The introductory program will be offered to the 50,000 residential, commercial and industrial customers who live in Hillsboro, St. Helens, Oregon City and Sandy. Larger industrial customers with loads of 5 MW or more would have access to alternate suppliers as of Oct. 1, 1997; in fact, the utility is extending retail choice to all of its commercial and industrial customers as of that date. Other customer classes in the pilot area would be able to choose their energy supplier shortly thereafter, by Dec. 1, 1997. The program would end on Dec. 31, 1998 for all participants.

Customers will be able to purchase energy from participating energy service providers or continue receiving PGE's tariffed retail service. And if a customer who signs up with an energy service provider can get a better deal from another provider, the consumer would be able to switch providers. "This ability of the end use consumer to 'switch' from one ESP to another will ensure that the market remains competitive and that the consumer is the direct beneficiary of that competition," reads the filing's executive summary.

While customers will still be able to buy their power from PGE, the company won't market its service within the pilot program area. "We have really done as much as we can possibly do of trying to level the playing field for the ESPs," said PGE spokeswoman Karen Lee. "We won't use the Enron logo on PGE information, and we want other [local] companies not to use their logos, either." NW Natural Gas and PacifiCorp have agreed, she added.

'We have really done as much as we can possibly do of trying to level the playing field for the ESPs.'

In addition, PGE will encourage energy service providers to participate in the pilot by offering them a credit of up to four dollars per residential customer per month, as well as a credit of 11.4 cents/KWh delivered per month for general service customers. "When we looked around the nation at how tentative energy service providers were to participate in pilots, we knew we needed an incentive to get them involved," said Lee. On a national level, 50,000 customers isn't that many, she said; the incentive is meant to encourage a variety of ESPs to participate.

Transmission and distribution services will be separately identified in the tariff for the introductory program. While PGE will offer billing services, the company will bill the ESP for delivery services, and the provider will be responsible for paying all charges billed by the company.

The charge for power delivery service includes a monthly basic charge and a monthly system usage charge. PGE says it developed these charges using a "top down" approach, removing an appropriate energy value from the retail service rate. PGE calculated the energy value with the same methodology it used in its 1997 rate plan. The utility decided to use this method rather than calculating its fully unbundled costs "on the belief that the introductory program should be utilized as a measure of customer choice in a competitive market, not as a means to estimate unbundled costs," the executive summary says.

For residential customers, the basic charge would be $5.50 per month, along with a system usage charge of 3.449 cents/KWh. Small general service customers with single phase service would pay a basic charge of

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Clearing It Up

[20] Mix of Provisions Mark Region's Market Access Programs ■ *from [4]*

As deregulation in the electric utility business becomes a reality, many Northwest utilities are experimenting with open access in various ways, including new pilot programs and rate schedules. Below is an inventory of these programs, summarizing various aspects. Many utilities have also signed or are working on individual contracts with open access provisions for their larger customers; but since these are not generic, they are excluded from this list.

CLARK PUBLIC UTILITIES

Clark's Powerful Choices program is not true open access, as all purchases are still made through the utility. Just under 6,000 customers (as well as between 100 and 200 small commercial customers) along selected meter-reading routes were made eligible as of April 1, 1998 for the year-long program. These customers have a total load of about 16,430 aKW.

Clark gave each the opportunity to purchase any combination of four products, each in a block representing 25 percent of the customer's load, so they could be mixed and matched. The four are: a Clark power product, a BPA power product, a green power option from PacifiCorp and a market rate based on 30- or 60-day averages at COB as reported in the *Wall Street Journal* (Clark posts the price on it website so customers can monitor it).

The default option is the Clark product, and over 4,900 customers selected it by not responding to solicitations Clark made. Of about 1,000 who made affirmative choices, two-thirds selected the Clark option (the same as the default option) for 100 percent of their supply, while about a quarter bought one, two or three blocks of the Clark product. The most popular split was 50 percent Clark/50 percent market rate.

All customers still pay a basic service charge and a 1.8 mill/KWh delivery charge. The energy charge, broken out separately on the bill, varies with the product selected or, in the case of the market-based rate, with the COB index.

While Clark does not have a formal program for its industrial customers, over the past two or three years a handful have negotiated new contracts with provisions allowing some market access. Under these provisions, industrials can negotiate their own deals with alternative suppliers; Clark purchases the power at the negotiated price and sells it to the end-use customer at cost.

In April Clark adopted Schedule 87 for contractual direct access service, which applies to customers with loads over 4 MW and to the several market access contracts it has already signed. Since it was important to Clark that its other customers not be impacted by these contracts, Schedule 87 includes a $.0025/KWh transition charge defined as the "costs incurred by the utility due to previously arranged [wholesale] power supply contracts." Since the cost is subject to market conditions, the transition charge is reviewed annually and individual contracts have true-up provisions.

DOUGLAS PUD

About a year ago, Douglas PUD approved Schedule 4, allowing customers with loads less than 1 aMW to negotiate with alternative suppliers. The customer and new supplier must make all arrangements to get the power to Douglas, which in turn imposes a 23 cents/day basic charge and 14.2 mill/KWh delivery charge, plus any charge or fee imposed on the PUD by BPA.

However, Douglas already offers power at 17.6 mills/KWh plus a 23 cents/day basic charge--a rate well below even the wholesale quotes the PUD received on a recent RFP. A customer would have to find a supplier offering power at less than 4 mills to make participation worthwhile. As a result, none of the many customers qualified has sign up.

GRANT

Grant PUD last October revised Schedule 92, which allows about 20 industrial customers to switch a portion of their load to non-firm, interruptible energy. These customers can sign an interruptible power supply agreement with the PUD, stipulating what percentage of market-priced power they'd like to receive.

The cost of the power is determined by the monthly on- and off-peak averages of the Dow Jones Mid-Columbia index. If service is interrupted due to shortfalls in non-firm energy available from Grant's generating resources, customers can go directly to the market and find an alternative supplier and make arrangements to have power scheduled to Grant's control area. The PUD adds a 7.75 mills/KWh delivery charge. So far, no customers have signed up under Schedule 92.

IDAHO POWER

While the Idaho legislature may have to wait until January 1999 to hear recommendations on restructuring the state's electricity industry (CU No. 819 [7/20]), Idaho Power made the first move toward extending open-access to its customers over a year ago. The IPUC approved the company's Market-Based Pricing Service Pilot, or Schedule 20, on April 7, 1997.

The program was designed to give customers using 5 MW to 10 MW of power the option of purchasing a portion of their load at market-based prices. Customers enrolling in the program, which was to last for three years, could opt to buy from 33 percent to 100 percent of their total load at prices determined by either futures traded on the New York Mercantile Exchange or the

Dow Jones COB index.

While Idaho Power has 10 customers eligible to participate in the pilot, none signed up before the enrollment period ended last December. Perhaps the null result was to be expected, as the Industrial Customers of Idaho Power decried it as a "timid, tentative step" toward open access during deliberations at the IPUC.

"I could surmise that perhaps floating with the market for three years wasn't attractive enough, when [eligible customers] combined the [3.6 mill] adder and the market-based prices," said Idaho Power pricing and regulatory services staffer Maggie Brilz. The commission order approving the program said the 3.6 mill charge was "intended to ensure that customers participating in the pilot program do not receive any preferential treatment...at the expense of other standard tariff customers."

Brilz said Idaho Power may propose a new pilot that incorporates revisions to encourage participation, but she added that any such plans are "still in their infancy."

MONTANA POWER

Montana's 1997 electric restructuring law (SB 390) mandates that open access must begin for the state's largest industrial power consumers by July 1 of this year. To this end, Montana Power's restructuring transition plan and the customer choice provisions it contains await approval by the MPSC, which is scheduled to issue an order June 24.

Come July 1, the market will be open both for customers with single loads over 1 MW, and customers with multiple accounts, each over 300 KW, that aggregate to 1 MW. Deborah Young, MPC director of programs in the energy services department, said the IOU has 81 customer groups and 239 accounts eligible for choice this summer. Among these are various industries, hospitals, some school districts and hotels. Young added that all accounts associated with the University of Montana and Montana State University had been granted a special exception and will also be given a choice of supplier this July.

Details of the pricing mechanism, including the ways in which billing and metering charges are assessed, remain to be ironed out with FERC and the PSC. Thus far, the PSC has registered 22 alternate suppliers.

SB 390 also stipulates open access phasing-in for customers of all classes by July 1, 2002. MPC has proposed beginning on Nov. 2 the initial phase of a pilot for 5 percent, or 11,000, of its residential accounts, and 5 percent, or 2,500, of its small commercial and irrigation accounts. Customers would be able to participate in the program on a first-come, first-served basis. The company would gradually add to the number of customers extended choice gradually over time, with the second phase of the pilot including another 5 percent of customers beginning in June 1999. If all customers were anxious to participate, Young said, choice for all could be available by April of 2000.

"There are a couple of misperceptions out there about residential open access," said Young. "The first is that no one will have choice until 2002. The second is that everyone will be forced to choose within the next year. But neither of these are actually the case."

PACIFIC POWER & LIGHT

Pacific Power's customer choice pilot offers direct access to all of the utility's large industrial customers, as well as all schools in its Oregon service territory, and provides 30,000 residential and small commercial customers in Klamath County with a portfolio of power service options. The utility had hoped some energy service providers would offer service under the portfolio plan, but none signed up in time to make it on the menu of choices, which Pacific will be mailing to eligible customers this week. PacifiCorp spokeswoman Jan Mitchell said the utility will send out a second ballot mid-way through the one-year pilot; if any ESPs show interest between now and then, they will be included on the ballot.

The portfolio portion of the pilot gets underway in July. Industrial customers, on the other hand, have been able to shift 100 percent of their load to an alternate provider since March 31 of this year, while schools have been eligible to do so since April 15. Mitchell said no customers have yet signed up with alternate suppliers, although discussions are no doubt ongoing. And Al Shannon of the Oregon School Boards Association said 52 school districts have signed up to aggregate their 262,648,000 KWh of (last year's) load for participation in the direct access pilot. An RFP should be released within the month.

Four ESPs have signed up for PacifiCorp's pilot: Illinova Energy Partners, PG& E Energy Services, Pacific Northwest Generating Cooperative and Powerex Corp.

PORTLAND GENERAL ELECTRIC

PGE launched its residential direct access pilot program in December 1997, while larger industrial customers with loads of 5 MW or more have been able to buy up to 50 percent of their energy from alternate suppliers since Oct. 22, 1997. In addition, the company has filed a more inclusive open access proposal--its Customer Choice Plan--with the first set of OPUC settlement conferences set to begin this week. The Introductory Program, as it's called, will end Dec. 31, 1998 for all participants.

Company spokeswoman Karen Lee said 23 industrial customers have signed up under the pilot, or about 58 percent of those eligible. The utility has a 350 MW cap on the amount of power it will make available for the pilot; so far, about 150 MW has been shifted to alternate providers.

Fourteen ESPs are certified to deliver power under the pilot; at this point, eight of them have signed up customers. One ESP accounts for 44 percent of the industrial load, with a second garnering 32 percent of the market share. Four other ESPs have 10 percent or less of the scheduled industrial load, PGE reported; and only two ESPs--Enron Power Marketing and Electric Lite--

are offering service in the residential sector.

The company reports about 6,000 residential customers have signed up for alternate service, or about 13 percent of those eligible--specifically, PGE customers who live in Hillsboro, St. Helens, Oregon City and Sandy. Small commercial and industrial customers in those cities also are eligible for the program, and about 29 percent of eligible commercial customers, or 1,947, are participating. Of the total 50,000 customers eligible for the pilot in all classes, 15 percent are participating.

PUGET SOUND ENERGY

Puget Sound Energy's Power of Choice Pilot met with a measure of indifference from both ESPs and customers alike when it began last November. A cross-section of 90,000 Puget customers in Mt. Vernon, Bremerton and some King County zip codes are eligible for the program, with direct access extended to the first 10,321 who express interest. But through the first four months of the program, none of the five registered ESPs--Illinova Energy Partners, MP Energy Services, Duke Energy, Pacificorp and IGI Resources--attempted to market to the more than 7,000 residential customers who sought to enroll in the program. Meanwhile, Illinova was the only successful licensed ESP, landing all three of the industrial customers that signed-up to participate in the program.

But pilot revisions approved by the WUTC March 11 have transformed large-load customers' apathy into active interest. Under the revised tariff, delivery charges have been lowered and customers are allowed to shift 100 percent of their load to alternate suppliers, rather than the 33 percent or 50 percent the pilot originally required.

"We've reached 100 percent for our large-customer class quotas since the tariff revisions went into effect," said PSE spokeswoman Dorothy Bracken. She said 17 new non-residential customers have signed on since March, for a total of 21. Bracken estimated that roughly 12 MW of the 32 MW of power on the market through the pilot are currently being purchased through alternate suppliers. She was quick to point out, however, that unlike other pilots in the region, Puget's program is structured around quotas for each customer class rather than allowing ESPs to contract a fixed amount of maximum load.

There is also new hope for the residential customers who want to participate in the pilot. Bracken said Electric Lite has signed on as the sixth registered ESP, and will market to these customers. "Pricing is structured so that if an alternate supplier charges the same rate as Puget, residential participants can still save 6 percent on their monthly bill due to incentives we've built into the program," said Bracken. Puget's Power of Choice Program is slated to run through December 1999.

TACOMA CITY LIGHT

Tacoma City Light has a program that gives four of its industrial customers a shot at market-based rates, though not actual direct access. The customers purchase their first 8 MW under a contract power rate from Tacoma; the utility then helps these customers determine their needs above that amount and goes to the market for them by issuing an RFP for certain blocks of power.

Although one customer pioneered the program, the others got started last October. The utility has purchased from 14 power marketers since then, and about 141 aMW have been purchased under the program.

"The important thing is they take the risk of fluctuations in market price and the risk of interruptions," said Dana Toulson, Tacoma's assistant power manager for power supply.

Tacoma's bill includes the pass-through to the new suppliers and a number of charges for ancillary services such as transmission, distribution, scheduling & dispatch, load following, load shaping and energy balancing. If the company has a take-or-pay deal but must go off line, Tacoma also charges to remarket the power. Between October and March 1998, the total average cost to customers participating in the program was about $23.50/MWh.

WASHINGTON WATER POWER

Washington Water Power was the first utility in the region to implement a direct access pilot. The utility's Direct Access and Delivery Service, or DADS, pilot was implemented in the summer of 1996 and terminates Aug. 31, 1998. During the pilot's first year, 15 of the 29 eligible customers participated in the pilot--ten in Washington state, where there are 18 eligible customers, and five in Water Power's Idaho service area, where there are 11 eligible customers. Three customers dropped out during the second year. WWP's Brian Hirschkorn said these customers had signed one-year contracts with power suppliers, and the second-year bids they received did not provide sufficient savings over Water Power's standard tariff.

Three energy service providers--Duke Energy, IGI Resources and Cinergy--are providing service to industrial customers under DADS. The customers can place up to one-third of their load with an alternate supplier and have a choice of two delivery options, both with a fixed amount of power, but scheduled and delivered on a daily or hourly basis.

Hirschkorn said the utility will not extend the pilot beyond its Aug. 31 end date. Water Power is absorbing the lost margins on DADS, which amounted to about $600,000 during the pilot's first year.

Water Power is also offering two residential/small commercial pilots with its More Options for Power Service I and II programs. MOPS I, which started last summer, provides direct access to residential and small commercial customers in the towns of Odessa and Harrington. About 21 percent of the towns' residential customers are participating in the two-year pilot, while 34 percent of general service, or small commercial customers, have signed up. Fifty-five percent of large general service customers--large commercial or small industrial customers--are participating; WWP spokesman Bruce Folsom said that amounts to six participants. The same number of pumping customers have also signed up, accounting for 75 of the customer class. The overall total participation rate is 25 percent, Folsom said. Only one alternate provider, Grant County PUD, is offering service under MOPS I.

An effort to experiment with the concept of portfolio access led the utility to take a different approach in its MOPS II filing. Under this two-year pilot, set to begin July 1, about 7,800 residential, small commercial and agricultural customers of Water Power in Deer Park, WA and Hayden and Hayden Lake, ID, will be able to choose from a menu of energy service choices, including a renewable energy option offering power from wood waste or wind. Water Power would provide these menu items, however, rather than an alternate provider *[A. B.-D., J. N. & B. T.]*.

[21] BC Gas, West Kootenay Power Form Supply, Services Partnership ■ *from [5]*

BC Gas Inc. of Vancouver and Trail-based West Kootenay Power have announced formation of a unique partnership to bid on the supply of power and related services for the province's interior region municipalities of Kelowna, Summerland, Penticton, Grand Forks and Nelson.

The joint BC Gas/WKP submission was filed in response to a national request for expressions of interest issued by the five municipalities last March. The five serve roughly 45,000 customers and represent 30 percent of WKP's annual electricity sales.

"Together we see enormous potential for efficiencies; [by] cutting down on duplication of services and streamlining capital construction, operations and maintenance, customer services and employee utilization," said Pearce Walsh, director of customer service delivery for WKP. "In selected areas we have determined that our partnership could produce savings as high as 40 percent."

The companies said they both maintain and construct utility infastructure in the same area, share the same customers, read meters at the same locations, handle emergency calls 24 hours a day and have sophisticated customer information and billing systems. "Taking into account employees, offices, taxes and utility infastructure, the two companies already have a significant presence in the five municipalities seeking a new service provider," they added.

Walsh explained that when combined into a single operator, the partnership will result in the same management focus on performance and return for the participating municipalities. "The savings that could be achieved if distribution and customer services are bundled together rather than operating as individual fiefdoms are very significant.

"With deregulation of the energy industry on the horizon in Canada, this partnership and the proposed affiliation with several local distribution utilities will surely serve as a model for the rest of the country," he added *[Brian Lewis]*.

[22] Montana Lawmakers Try to Delay Deregulation—Again ■ *from [6]*

Undeterred by their initial failure, a group of state lawmakers is once again attempting to convene a special session of the Montana legislature in an attempt to delay the onset of the state's comprehensive electric restructuring act (SB 390). Under the law, open access is scheduled to begin July 1 for the state's largest power consumers.

This is the first time in the state's history that lawmakers have attempted a second special session call on the same issue. The Montana Elections Bureau said it received 17 lawmakers' requests to poll the legislature a second time, and sent out ballots April 28.

Democratic Rep. David Ewer, who has spearheaded the special session campaign, said new information on the effects of deregulation has emerged since March, particularly with the opening of the California market. "If Enron can't make it work in a market of 10 million customers with rates two times as high as Montana's, who really believes ordinary citizens will get real choic in this state?" Ewer asked, referring to Enron's recent withdrawal from the California residential market.

Ewer also said he believes residents of Montana have become increasingly aware of deregulation in recent months, and that they are exerting more political pressure on lawmakers to reconsider their support for restructuring. Ewer wouldn't predict a victory for the second special session call, but said he expected the vote to be closer this time.

The first call for a special session was sparked primarily by Montana Power's December announcement that it will sell all of its in-state generation. Deregulation's opponents said the IOU had not mentioned the possibility of a sale during deliberations on the restructuring law, and argued that the divestiture would result in the loss of cheap power, jobs, water rights and millions of dollars in property taxes. Proponents of SB 390 suggested these fears were unjustified, and also noted that the language of the bill explicitly mentions divestiture as a means of asset valuation.

The March call for a special session failed by a margin of 24 votes. While the assent of 76 of the 150 lawmakers is needed to convene, the effort received only 52 yes votes and 93 no's. Some opponents of deregulation saw the vote as a small, moral victory--closer than the original 113 to 35 margin by which SB 390 was passed a year ago.

On the eve of the deadline for the first vote, Sen. John Harp (R) told *Clearing Up* that "[energy deregulation] has become a partisan issue in Montana." This did not turn out to be true in the strictest sense, but 43 of

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CLEARING UP
NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

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The Week in Summary

[1] Johansen Back on BPA List; Peña Pledges Speedy Decision

Judi Johansen has resurfaced as what for all practical purposes is the leading BPA CEO candidate, which revelation comes on the heels of EPA Region 10 Director Chuck Clarke's dropping out of the running and Gary Zarker's quick in-and-out candidate cameo for a day or so last week. First Clarke and then Roy Hemmingway canceled Federico Peña interviews set for early this week. Peña himself, on announcing his impending resignation, said the BPA appointment would be "accelerated." *The accordingly breakneck Bearing Down account of these matters whizzes along to [12].*

[2] Parties Agree Not to Appeal Ninth Circuit's Kalispel III Ruling

In a regional industry distinguished by court cases that are long and complex, the litigation over operations of Pend Oreille PUD's Box Canyon hydroelectric project has held its own. But an agreement the parties reached in the last several weeks not to seek further appeal has brought an end to 18 years of litigation that featured three appeals to the Ninth Circuit. And yet, serious controversies remain in ongoing negotiations over an amendment to Box Canyon's license, even as that license is nearing its expiry. *Box Canyon leaves court but stays at FERC at [14].*

[3] California Market's First Week Went as Expected, Say Northwest Players

With just over a week of operations under its belt, the California marketplace seems to be going as expected. There have been some technical problems and scheduling errors, but nothing major. At the same time, however, Northwest participation in the California action has been fairly minimal. *Regional reactions to California's retail access at [18].*

[4] NW Independent Grid Operator Group Circulates Proposed MOU

Work toward the creation of an independent grid scheduler (IGS) for the Pacific Northwest may not be far off. For just over a week now, a proposed MOU for the development of an IGS has been circulating in the region looking for signatures. It was initiated by a group of utilities led by Chelan PUD, which hopes to have the signed MOUs returned shortly. The IGS is significantly smaller in scope and size than Indego, the failed

New York Times, 4/2/98

Deregulation Of Utilities In California

Many Power Sources Are Made Available

By AGIS SALPUKAS

After a five-year effort to allow customers to bypass their local utilities and buy power directly from other sources, California became the first state to do so yesterday.

A complex system that allows electricity to be auctioned to get the lowest price for consumers and then to be delivered to them by an agency no longer controlled by the state's major utilities functioned flawlessly yesterday, serving 38,000 customers.

In achieving utility deregulation, California brought together many groups, often with competing interests, and reached an effective compromise. Now, California is expected to serve as the model for other states, despite delays caused by computer glitches, attempts by some groups to gain support for referendums that would reduce the amounts that utilities should be able to recover for past investments and the very small number of the 8.9 million customers who decided to switch away from their utilities.

"We breathed a sigh of relief," said Scott Gebhardt, the president of PG&E Energy Services, the marketing division of the PG&E Corporation, which owns the largest utility in the state, the Pacific Gas and Electric Company. "Despite the scare tactics of consumer groups and other naysayers, everything went well."

"Many are saying that California could have done things differently or cheaper, but the fact is that it's been done," he added.

About 15 states, including New York, Pennsylvania, Massachusetts and Rhode Island are well on their way to opening their utilities to competition and have adopted some of the concepts pioneered in California.

The complicated process began when the California Power Exchange received bids from 19 other utilities in and out of state and from other generators of power.

In two hours, about 510,000 megawatts of electricity, or 80 percent of that used in the state, was traded at an average price of $19.73 a megawatt-hour. In comparison, before there was competition, a megawatt-hour would have cost an estimated $24. Rates in California are among the highest in the country.

The aim of the exchange is to drive the cost of power as low as possible and thus help cut customers' rates.

An agency called the Independent System Operator, which took the state's transmission grid over from the utilities, was responsible for making sure that the system functioned smoothly.

One customer who switched, Michael Allen, a financial analyst who lives in Torrance, a suburb of Los Angeles, has begun to get his electricity through Enron Energy Services, the group that markets electricity for Enron, the Houston-based energy company. His local utility, the Southern California Edison Company, however, still delivers the power over its transmission system.

Originally he and others who decided to switch would have gotten their power from their new suppliers as of Jan. 1, but glitches in the Power Exchange software led to a three-month delay.

He said that he decided to switch to Enron to buy what has been dubbed as green power, that generated from such sources as wind, solar and hydroelectric.

"This is a way for people to help foster the development of renewable energy sources," he said.

The savings in the first four years are expected to be small. Mr. Allen said that like all residential and smaller customers in the state his rates were cut 10 percent on Jan. 1. For him that is a saving of about $3 on his average monthly bill of $30.

After the 10 percent rate cut, the 229 marketers that are trying to get customers to switch have had a hard time offering additional savings. Thus, they have resorted to offering incentives such as short periods of free electricity, often merely confusing customers.

The delay also caused people to worry about reliability and provided ammunition for groups opposed to the current approach.

Lou Pai, the chairman and chief executive of Enron Energy Services, said that yesterday was "just the opening of a very long and protracted process." He added, "It's not going to change the industry structure overnight."

He said that building up a base of customers would take time. Eventually Enron hopes to offer a range of services and ways for customers to use electricity more efficiently.

THE WALL STREET JOURNAL THURSDAY, APRIL 2, 1998

Quasigovernmental Utility in Phoenix Spurs Outcry by Joining California Rush

By KATHRYN KRANHOLD
Staff Reporter of THE WALL STREET JOURNAL

With California's electricity market now officially open for competition, a controversy is erupting over one Phoenix-based utility that has joined the rush for customers.

The company in question is the Salt River Project, an Arizona electric and water utility created by farmers with federal funding in 1903. It has traditionally sold electricity only in the Phoenix area. But Salt River Project's retail unit, New West Energy, has aggressively sought and won contracts in California, which officially opened itself to competition this week. Its biggest prize is a contract to provide Mobil Corp.'s California operations with electricity and energy services.

Competitors are crying foul, and doing their best to block Salt River Project. Their beef: Salt River Project, as a quasigovernmental entity, has built up its electric empire of dams, power plants and nuclear power through cheap sources of capital, namely tax-free bonds. Salt River Project also receives a portion of its power at discounted rates through the federal government instead of at market value. Investor-owned rivals argue that they are at a disadvantage because they don't enjoy the same breaks.

One Arizona rival, Tucson Electric Power Co., has requested that Secretary of Energy Federico Pena and Secretary of Interior Bruce Babbitt stop Salt River Project from selling electricity beyond its region. Tucson Electric's Washington, D.C., law firm fighting Salt River Project, Troutman Sanders, also represents other big utilities—including Duke Energy Corp. of Charlotte, N.C., and Atlanta-based Southern Co. — that have formed a coalition to lobby Washington on a number of issues, including fair competition.

Tucson Electric owns 50% of Los Angeles-based New Energy Ventures, one of the most aggressive marketers of power that has won several huge contracts in California.

The issue is more than a spat between rivals. Salt River Project's initial success in California has raised a major question that will affect deregulation across the nation: how to treat public power utilities in the competitive market. "The marketplace should determine who the winners and the losers are, not federal government subsidies," said Kevin Fitzgerald, one of Tucson Electric's attorneys.

Salt River Project's general manager, Richard Silverman, dismisses Tucson's complaint as sour grapes. Mr. Silverman says that Tucson has been struggling to recover from near-bankruptcy since 1990, and currently has $1 billion in outstanding tax-free bonds of its own. Salt River Project has $3 billion in tax-exempt bonds outstanding. "Competition is competition, and we are a target," Mr. Silverman said. "They're trying to eliminate us."

Administration officials said the Department of Energy is reviewing the complaint. Meanwhile, Congressmen Bob Franks (R., N.J.), and Marty Meehan (D., Mass.) at Tucson Electric's behest, are seeking a federal investigation into Salt River Project's activities.

■ Monday, July 6, 1998 ■ No. 834 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

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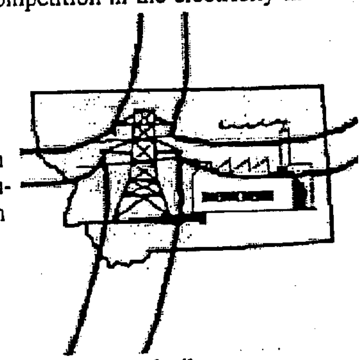
The Week in Summary

[1] State Water Managers Voice Concerns Over Fish Flows

Northwest water resource managers met in Seattle last week to discuss federal fish policy, and expressed concerns over the value of NMFS' flow augmentation strategy. They admitted disconnects with their own fish and wildlife managers and vowed to work together with their governors to create an accountable policy. Idaho managers said their legislature may vote to keep any more of their water from going down the drain. But with present and future ESA listings all over the map, NMFS policymaker Donna Darm told them, "You haven't seen anything yet." ***The latest water war begins at [19].***

[2] Montana Power's Large Customers Now Have Open Access

In an order Chairman Dave Fisher touted as "a milestone on the road to competition in the electricity industry in Montana," the MPSC on June 23 approved portions of Montana Power's restructuring transition plan that provide open access to large customers. The ruling, which came just in time to meet the July 1 deadline put forth in the state's electricity deregulation legislation, included decisions on rate design and pilot programs. Notably absent, however, were determinations on transition costs and public purposes funding. ***The commission rules with little time to spare at [16].***



[3] POTOMAC: White House Dereg Plan Redone in Legislative Language

The Clinton Administration's proposal for electric utility restructuring--first announced in March--is now in the form of a legislative proposal. Outgoing Energy Secretary Federico Peña delivered the bill to the Hill June 24. Senate Energy Committee Chair Frank Murkowski says he'll introduce the proposal when the Senate reconvenes after its Independence Day holiday recess. ***The principles are the same, but details have been added at [21].***

[4] PNGC Carves NWEC's Turkey Award for Coffin-Butte Project

The Northwest Energy Coalition and PNGC traded press releases last week over the effect of how two PNGC members are marketing their share of the 2.5 MW Coffin-Butte landfill gas energy project.

AN INDEPENDENT NEWS SERVICE FROM ENERGY NEWSDATA

■ Monday, July 10, 2000 ■ No. 937 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

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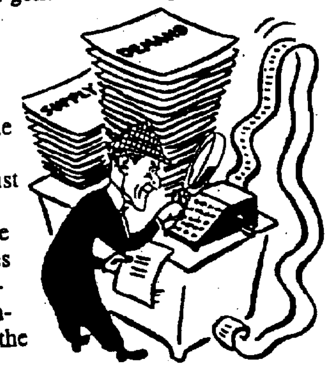
The Week in Summary

[1] Search for Answers on NW Market Volatility Puts Pressure on WSCC

Easy explanations for last month's electricity price spikes include unexpected generation outages, less hydro power than usual and unseasonably high temperatures throughout the West. More difficult to determine--but making the rounds nonetheless--are charges that someone must be gaming the system, both in California and the Northwest, to push prices upward. Sen. Slade Gorton is asking FERC to investigate and will make the same request of DOE, while the NW Power Planning Council is also scoping a study of the price irregularities and power shortages. But to be productive, both the federal and regional investigations will require information on actual NW system loads and resources during the hot weather/price spike/generation shortage, and that may be difficult to obtain. Utilities, generators and power marketers claim much of the information is proprietary. And while the WSCC's extra high voltage data pool provides some of the relevant data to operating entities in the WSCC area, the Council's rules prohibit sharing that information with third parties. *Those rules are creating headaches for policy makers at [19].*



[2] Despite Political Pressure, Cal-ISO Resists Lowering Caps Again

In its second emergency meeting in as many weeks, the California Independent System Operator met to vote on lowering price caps on ancillary services to \$250/MW. But despite all the arm twisting from state Senator Steve Peace's office and Southern California Edison, the board of directors stuck with the median price of \$500/MW reached the previous week. *At [13], one board member quits in disgust.*

[3] POTOMAC: Senate Passes Reliability Bill as Calls Mount for Investigation

Just before adjourning for the Independence Day break, the Senate passed Sen. Slade Gorton's (R-WA) electric reliability legislation and gave up on trying to pass a more comprehensive restructuring bill this session. In the meantime, Gorton has asked both FERC and the Department of Energy to investigate the causes of the historically high prices. Meanwhile, DOE last week invited western state government and utility industry representatives to attend a Western Electricity Preparedness meeting July 10 and July 11 in Reno. Senate

The News Tribune, Thursday, June 29, 2000

Utility seeks water-selling right

By Rob Tucker
The News Tribune

Puget Sound Energy has asked the state for the right to sell White River water for drinking to residents of the King-Pierce-Snohomish counties region.

If the state Department of Ecology allows it, the new drinking water source could significantly add to the long-term water supply in the three-county region.

Some communities already are short of drinking water to accommodate population growth. Others are projecting possible shortages by 2020, according to DOE and other utility officials.

The proposed PSE right is for 100 cubic feet per second, which is as large as Tacoma's water withdrawal right on the Green River for Pipeline 1. That pipeline serves most of Tacoma's water needs.

"It's a big chunk of water," Ed Schild, director of power production and storage for PSE, said of the utility's request. "We are willing to take water out of the (White River hydroelectrical) project to help the project."

PSE officials said the water is dirty from glacial till and would have to be treated before people could drink it.

Water sales income could help PSE make up a projected 20-year deficit that stems from new federal license requirements for the White River Hydroelectric Project.

PSE has talked about the possibility of retiring the hydro project if it cannot make up the deficit of $35 million to $80 million over two decades. If it did retire the project, Lake Tapps, the project's reservoir, would disappear. The lake is 4½ miles long and 2½ miles wide.

Tacoma Water Superintendent Ken Merry said the PSE water right, if developed, wouldn't upset Tacoma's Second Supply Project to build a second pipeline from the Green River to serve Tacoma and partners in South King County, including the Lakehaven Utility District, which includes Federal Way.

"Any additional supply, if it comes to pass," Merry said, "is a very positive addition to the resource mix. We'd welcome an added supply for regional needs."

PSE already has a large water claim on the White River as part of its hydroelectric project that includes the lake, DOE says. The utility built the project and created the lake in 1911.

The Bellevue utility has the right to withdraw up to 2,000 cubic feet per second from the river at Buckley. The utility diverts the withdrawn water by canals and pipelines more than seven miles to Lake Tapps, where it's stored. Then the water is spilled downhill to a power generation plant in north Sumner and returned to the White River.

PSE said the front-end costs of building a treatment plant and pipes to connect with Tacoma, Seattle, or some other part of the regional system is more than $50 million. Schild said the utility is only offering the water for sale and hopes that water companies will build the treatment plant and lay the connecting pipes, if the permit is granted.

He said PSE would drop the idea if no money comes from interested water utilities.

Merry said Tacoma doesn't need the PSE water, but its Second Supply Project, when built, could help move the water to communities in the region that do need it.

Gary Nomenson, another spokesman for PSE, said the application is part of a task force's efforts to save Lake Tapps.

"It has great potential," Nomenson said. He said the idea for withdrawing the water came out of months-long discussions among task force representatives from PSE, Lake Tapps homeowners, and local, state and federal officials. They were searching for ways to save the lake and to allow PSE, the lake owner, to profitably run its hydro power project.

State Rep. Christopher Hurst (D-Enumclaw) is a task force member who helped push the idea as a way to help save the lake and benefit the region.

"There's a tremendous ecological benefit," he said.

Hurst said said another benefit of the drinking water plan is PSE's related commitment to release Lake Tapps water into the White and lower Puyallup rivers to better protect endangered salmon when river flows are low.

The permitting process is likely to be a long road. The ecology department is not allowing any new water rights to be developed in the White River Basin without further study of how new water right applications would affect the water supply.

PSE, however, has offered to pay for that study, so a full review will be undertaken, said Mike Harris, water resources manager for DOE's Southwest region. Mary Getchell, spokeswoman for DOE, said there are 20 applications for new rights in the White River Basin.

PSE wants to withdraw the river water in Lake Tapps above the power plant on the west end of the lake, at the end of the tunnel that water goes into before running through the power plant.

The drinking water plan evolved after the Federal Energy Regulatory Commission placed requirements on a power license for the White River project. PSE says those requirements will cost it up to $80 million in additional expenses over 20 years. PSE joined a task force to try to find a way to profitably continue the hydro project to save Lake Tapps.

The lake shore and the uplands behind it have developed over the years, and more than 15,000 people live on or near the lake. Homeowners don't want to lose the lake, which is popular among boaters during the period that it's bank-full, from Memorial Day through Labor Day.

If the lake disappeared, Pierce County, nearby fire and school districts and other property taxing districts could lose more than $500,000 as the property around the former lake would lose a third of its value, according to county estimates.

Seattle Post-Intelligencer • Wednesday, July 5, 2000

The cost of heating may soar this winter

Natural gas, oil prices up as demand for fuel soars

By Neela Banerjee
The New York Times

After a summer of high gasoline prices, consumers may be in for another shock this winter, as the rising cost of heating oil and natural gas threatens to make it significantly more expensive to heat American homes.

With demand for fuel and electricity soaring, natural gas prices have nearly doubled in the last year, to their highest levels in more than a decade. Heating oil prices have risen 10 percent just in the past month. This winter, many homeowners could discover that it costs at least 30 percent more to heat their homes than it did last year.

Prices heat up

■ If you thought the summer's gasoline prices were high, winter could hold worse news: Natural gas prices have nearly doubled in the last year and heating oil prices have risen 10 percent just in the last month.

Even with a new pledge on Monday by Saudi Arabia, the world's leading oil exporter, to increase production to help reduce global petroleum prices, the effects of such a move on U.S. energy costs remain unclear at best.

"What you need to fear is the double whammy," said Steven Paris, a natural gas analyst at Credit Suisse First Boston. "That's when prices rise 30 percent and it's cold, so you use 40 percent more gas."

While the prices of all fuels have risen recently, natural gas is affected by a variety of factors, including its use in electric power generation and in heavy industry, in addition to home heating.

Used in power plants in the summer to churn out electricity to keep air conditioners whirring, natural gas warms slightly more than 50 percent of U.S. homes in winter, mainly in the Midwest, Sunbelt and Rocky Mountain states, according to 1997 Census figures.

More than 90 percent of new houses in the United States are outfitted to use gas, according to Keyspan, the supplier of natural gas to much of New York City and Long Island. Only about 10 percent of homes burn heating oil, a large proportion of them concentrated in the Northeast, where oil prices rocketed last winter during a stretch of bitter weather.

Closer to winter, rising heating fuel prices are likely to generate political controversy, much as gasoline prices have done recently. Consumer anger over gasoline prices, especially in the Midwest, has made the cost of energy an issue in the presidential campaign and led to congressional hearings and federal inquiries.

Already, Rep. Jim Leach, R-Iowa, has asked the Federal Trade Commission to monitor the increases in heating oil and natural gas. The FTC declined to comment on the request.

The price increases have been caused by an imbalance between supply and demand that probably will not right itself soon.

Energy use is an important indicator of an economy's health. U.S. industry uses prodigious amounts of oil, gas and electricity every year, while consumers are buying larger houses and cars and other products that demand more fuel.

At the same time, critics of the government charge that a series of Republican and Democratic administrations have failed to construct a sound energy policy to take into account shifts in demand and the complexities of the supply of oil and gas. Now, the Clinton administration and Congress are scrambling to find ways to undo or slow the increase in fuel prices.

"When it comes to energy, we only seem to wake up when there's a crisis," said Gordian Raacke, executive director of the Citizens Advisory Panel, an energy watchdog group in Long Island.

High fuel prices have yet to slow the economy, and adjusted for inflation, domestic prices are still much lower than can be found in the rest of the world.

Wholesale heating oil prices are now at about 84 cents a gallon, compared with 49 cents a year ago. Wholesale natural gas prices are now at about $4.44 per million British thermal units (Btus), compared with $2.39 one year ago. Some analysts say that natural gas prices will decline, while others contend that they have yet to peak.

A decision to cut back production by the Organization of Petroleum Exporting Countries last year spurred the ascent of crude oil prices, which helped push up heating oil prices. At the same time, demand blossomed.

Refineries usually begin in summer to store distillate, which includes heating oil and diesel fuel. But this year, surging demand for diesel has drawn distillate out of refineries as quickly as it flowed in, analysts say.

To worsen matters, a refinery in Kuwait that supplies a disproportionate amount of distillate to world markets was damaged by an explosion last week, which markedly reduced supply at a time of rising demand.

The Energy Department reported last week that inventories of distillate were 21 percent lower than last year, a situation unlikely to change even with Saudi Arabia's announcement Monday about higher production.

Stocks of natural gas are also 10 to 15 percent below levels a year ago. The shortfalls are partly the result of conditions over the past couple of years, when oil and gas prices were so depressed that few energy companies were drilling for new supplies.

As prices rose for oil and gas, however, companies speedily resumed drilling. North America has 65 percent more active drilling rigs than a year ago, and 75 percent of them are for natural gas, according to the Natural Gas Suppliers Association, a trade group.

Despite higher gasoline prices, Americans are driving as much as before, and are expected to heat their homes as warmly as always, albeit with some consternation.

Steep energy prices would hurt low-income Americans, however, especially those on a fixed income.

A 78-year-old retiree, Lillian Drummond and her husband live in Chicago, where gasoline exceeds $2 per gallon. With a combined monthly income of $1,500, they count every cent paid for the gasoline they use to drive to the doctor a few times a week.

Last winter, the couple spent about $100 a month on natural gas to heat their small, brick one-story house and were spared even steeper payments by the mild weather.

Drummond said she does not know how she or her many neighbors who scrape by every month will pay higher heating bills this year.

"It would be terrible, because I don't know how we would handle it. We barely manage to save anything now," she said. "We keep the thermostat at 60 degrees in the winter and stay under the covers. Any lower and we woul[illegible]e."

AN INDEPENDENT NEWS SERVICE FROM ENERGY NEWSDATA

Monday, September 25, 2000 ■ No. 948 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

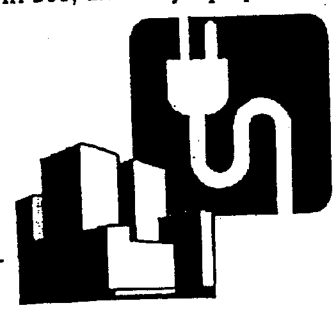
The Week in Summary

[1] Bonneville Likely to Exercise All California Recall Rights

BPA said last Thursday it is likely to exercise all rights and provisions in existing contracts to terminate its agreements with California customers. The agency will use the recalled power to meet Northwest firm loads over the next few years. Steve Oliver, BPA Bulk Marketing VP, stressed that the actions do not constitute insufficiency under the Regional Preference Act. So far only one termination notice--to SCE--has actually gone out. *But at [13], final decisions on others will be made as the notice provisions in the respective contracts come up over the next six months.*

[2] PSE Pulls New Large Load Tariff for Now; SCL's Under Discussion

Puget Sound Energy has asked the WUTC for permission to withdraw Tariff 300, the utility's proposed tariff for new large single loads. PSE indicates withdrawal of the tariff will allow it to "pursue more expeditious resolution of the issues" with potential customers, and that it hopes to file a revised tariff within a few weeks. Seattle City Light, meanwhile, has already scheduled a meeting with customers for Wednesday, Sept. 27, to discuss its proposed new large load rate ordinance. Both proposals, which are designed to handle requests for large amounts of extremely reliable power, have raised questions about the obligation to serve and what constitutes electric service. *Power proposals raise policy issues at [20].*



[3] PacifiCorp Wants to Delay SB 1149 Filing; May Seek Power Cost Hikes

PacifiCorp is asking the Oregon PUC for permission to delay portions of its rate case filing under SB 1149, Oregon's electric restructuring law. In the first item in the IOU's 1149 rate case docket, UE 116, the utility asks for permission to file its restructuring rate case in three parts and delay filing two of the parts: one, tariffs for general rate revisions, including cost of service and unbundling information, from Oct. 2, 2000 until Nov. 1; the other, the company's resource plan, from Nov. 1 until Dec. 1, 2000. Two parties to the 1149 rulemaking and PacifiCorp's recently settled rate case are opposing the delays--partly out of concern that the utility may use the additional time to put together a request to recover higher power costs from customers. *Pacific says it's only considering the latter at [17].*

SEATTLE POST-INTELLIGENCER | WEDNESDAY, SEPTEMBER 20, 2000

Area firms feel the heat amid soaring energy costs

Businesses scramble to increase their production efficiency

BY MARNI LEFF
P-I reporter

Brewing a beer takes a lot of energy – the kind of energy that isn't cheap these days.

At Seattle's Redhook Ale Brewery, where officials say they are keeping a close eye on soaring energy prices, that means trying to find ways to make production more efficient.

"It's forced us to look at our business in a new way," said Dave Mickelson, chief operating and financial officer. "We're a significant energy user, of natural gas especially."

As oil prices have climbed steadily in recent months, pulling up natural gas and gasoline prices along with them, local businesses say that they're beginning to feel the impact. Electricity prices have also climbed.

"Nobody predicted this particular run-up," said Dick Conway of the Puget Sound Economic Forecaster. "One line of thought is that if prices get too high businesses and households will respond by going through another round of conservation measures, which will cut demand for electricity and cause the bottom to fall out. Others think we're still dealing fundamentally with a limited supply."

For Redhook Ale Brewery, like some Seattle companies, a prenegotiated contract means that the impact of rising energy costs will be delayed.

"It's a huge component for us," Mickelson said. "We continue to look for ways to be more efficient and when the price is up, that's even more so. It hasn't hit just yet, but when you know that it's coming, it means that you better get on it right away."

Other Seattle companies, like Pagliacci Pizza, say that so far they've absorbed rising costs.

"It is something that we've felt in two different ways," said Scott France, controller. "One is that our drivers are obviously concerned about it, and two, the cost of just simply running our ovens has increased."

France said the company is considering raising mileage reimbursements for its 100 to 150 drivers, but right now has no plans to pass any increased costs on to customers.

"If this continues it means that at some point we would have to take a look at our own prices," France said. "We don't take that lightly and we don't like to respond to market pressures. We like to charge what we think is fair."

Seattle florists, too, say they've felt the crunch.

When delivery services began charging more to deliver flowers, florists say their costs began increasing.

"Right now, we're just scratching the surface of problem," said Joanne Mafune, whose family has owned Melrose Florist in the University District since 1926. "The only areas that have been immediately affected are gas and delivery."

Mafune said that Melrose has tacked on a $1.50 surcharge for deliveries, adding that other Seattle florists have done the same.

Companies with high utility costs, such as Swedish Health Systems, which spends $7 million to $8 million a year on utilities at its three campuses, say high energy costs have hit hard.

"We've been working with an energy conservation team for short-term solutions, like using energy during off-peak hours to reduce costs," said Allen Caudle, senior director of hospitality and logistics. "We're trying to mitigate the situation because there's no way to hold the line."

Yet economists were quick to point out that repercussions take time and although the high energy costs may hurt businesses – as well as individual households – they're not likely to have a major effect on the regional economy any time soon.

Conway estimated that increases in fuel prices have cost households in the central Puget Sound area roughly $600 million, which, though it sounds high, represents only .5 percent of the area's income.

"Even if there's a $600 million loss, it will only partially curtail consumer spending," he said. "There's a tremendous wealth buildup in the area and that means there's a big cushion to play with."

And for most businesses, Conway said, energy costs represent just a fraction of overall expenses.

"For a lot of companies it's money off the bottom line," Conway said, "and in many cases they can pass it on because this is happening everywhere. For those companies it's not terribly disruptive. But for companies that are energy intensive, this hurts."

THE WALL STREET JOURNAL THURSDAY, SEPTEMBER 14, 2000

Demand and Prices for Natural Gas Keep Rising

By CHIP CUMMINS
Staff Reporter of THE WALL STREET JOURNAL

As supply concerns keep oil prices above $30 per barrel, the tightest natural-gas market in years has sent prices of the other fossil fuel to dizzying heights of its own in recent sessions.

Natural-gas producers have been ramping up production all summer, throwing mothballed drilling rigs and offshore platforms back into service and pumping up budgets for natural-gas exploration and production. But those efforts look like they may be coming too late to help consumers this winter.

"We're drilling at unprecedented levels," says John Sharpe at the Natural Gas Supply Association, a Washington lobbying group that represents the country's biggest producers. "It would be very difficult to find any spare equipment out there."

Indeed, the companies that contract drilling rigs and equipment for natural-gas exploration and production are reporting soaring utilization rates. According to Baker Hughes Inc., a Houston oil and gas services company, there were 886 rigs drilling for natural gas last week, up from 561 at the same time last year.

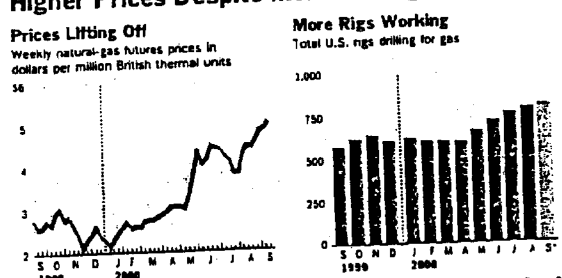
Still, production isn't keeping up with demand. Budgets for finding and producing natural gas were sharply pared back as energy prices fell in the last two years. With prices high again, companies can afford the cost of finding and pumping more gas, but they can't get to it fast enough. They are also running into labor shortages on the gas fields of Texas and on drilling platforms in the Gulf of Mexico.

Inventory Is Low

Meanwhile, a closely watched cushion of stored inventory reported by utility companies each week is about 15% below where it was this time last year and 10% below a five-year average for the season. That has worried many—traders in futures pits more than most—that the country is facing an imminent natural-gas squeeze.

Late yesterday, the front-month future contract was at $5.055 on the New York Mercantile Exchange, up from $5.005 Tuesday. That is more than double its price at the start of the year.

Higher Prices Despite More Drilling



Sources: New York Mercantile Exchange; Baker Hughes

*As of week ending Sept. 8

The American Gas Association, an industry group of natural gas-burning utilities, promises reliable service throughout the winter. But "certainly, we're not happy about the higher prices," says Roger Cooper, executive vice president of the association.

The AGA reported yesterday that producers injected 72 billion cubic feet of natural gas into inventories for the country's electric utilities last week, a higher-than-expected addition.

At Burlington Resources Inc. of Houston, domestic production was 1.47 billion cubic feet of natural gas per day for this year's second quarter, just over 2% more than the 1.44 billion cubic feet a day produced during the same period last year.

'Struggling' Industry

"The industry is struggling to increase its productive capacity," says Bobby Shackouls, chief executive of Burlington, the third largest domestic gas producer.

Small production increases like that come as demand for cleaner-burning natural gas continues to climb. "Anything like a normal winter is just a lot more gas than we've seen" in the past, says Dave Costello, an economist at the Department of Energy's Energy Information Administration.

The EIA now predicts that if this winter is a typical one, Midwestern families could be spending as much as 40% more on heating because of higher natural gas prices. "A real cold spike could cause some problems, the total extent of which we really don't know," says Mr. Costello.

Because natural gas is difficult to transport, most of the gas consumed in the U.S. is produced domestically. Producers say several factors have kept gas companies from quickly ramping up production.

"When prices were low and returns weren't there, nobody spent any money," says Gary C. Evans, president and chief executive of Magnum Hunter Resources Inc. of Irving, Texas, a smaller, independent producer. "Banks are still very, very conservative, and Wall Street is still not giving us the stock multiples."

While Magnum and much bigger companies have recently expanded their production budgets again, producing new natural gas will take time. "It's going to take us a year to two years to get the gas production up to levels to meet demand," Mr. Evans says.

BiOp will be in place before the next president is, but river users think the document is dead on arrival if Bush wins. At the very least, they say, NMFS will have to explain why the agency supports drastic measures such as flow augmentation when its own scientists have been hard pressed to find biological benefits from the expensive strategy. ***A BiOp in the hand is worth two in the Bush at [18].***

[8] PUD Election Results: New Faces in WA; Veterans Leaving in OR

There were distinct trends in the PUD commission races in both Washington and Oregon this month. Electric consumers in Washington will be seeing a fair number of new faces on boards across the state, as four incumbents were defeated and new people were elected to fill vacated seats at three eastern Washington PUDs. Also, Grant PUD's Vera Claussen and Clark's Carol Curtis won six-year terms, both for the fourth time in a row. In Oregon, the trend was the departure of a number of long-serving commissioners, mostly by retirement. Columbia River PUD's Richard Sahagian is leaving after 22 years on the board; Clatskanie's Kenny Erickson has taken retirement after 30 years and Central Lincoln's Frank Lundy is calling it quits after 37 years. ***More election results and a few parting observations from Lundy at [20].***

[9] PacifiCorp Earnings Slide Downhill as Purchased Power Costs Climb

PacifiCorp reported earnings of $48.1 million on revenues of $1.4 billion for the three months ended Sept. 30, 2000, compared to earnings of $73.4 million on $1.03 billion in revenues for the same period in 1999. The IOU's results were driven downward by earnings from domestic electric operations, which tumbled $37.1 million for the quarter as purchased power expenses rose 141 percent. ***Also at [21], Westcoast Energy and BC Gas post improved earnings for third quarter 2000.***

Briefs

[10] Stateline Wind Project Gets Regional Planning Commission Approval

The Walla Walla County Regional Planning Commission has granted FPL Energy's request for a conditional use permit for its Stateline Wind Project. At its Nov. 8 meeting, the commission unanimously voted to issue the permit, which allows construction to start on the 250- to 300-MW wind generation facility. The project is to be built on agricultural land in Walla Walla County in southeastern Washington state and in neighboring Umatilla County, Oregon.

Bob Kahn, consultant for FPL Energy, said active construction will begin the first week of January 2001. Construction of about 15 percent of the project will be delayed until after an avian impacts study can be conducted next spring--per an agreement with the Blue Mountain Audubon Society, which supports the project.

In addition, construction of the Oregon portion of the facility cannot get underway until the Oregon Energy Facility Siting Council approves the project. About 350 wind turbines are planned for the Washington side of the border and an additional 150 in Oregon. The project is expected to be on line by the end of 2001 ***[J. N.].***

[10.1] BPA Tries to Smooth Flows for Chum below Bonneville Dam

Fish managers called for higher flows last week to aid ESA-listed chum stocks below Bonneville Dam. They requested instantaneous flows be boosted to 140 kcfs on Nov. 8, with another bump to 150 kcfs on Nov. 15. Flows would be maintained at that level until the end of the month.

Fish managers said spawning surveys showed the chum were being negatively impacted in Hamilton Creek below Bonneville Dam. A lack of rain has kept streamflows in tributaries below normal levels.

Scott Bettin, BPA's representative to the TMT group that manages hydro operations, said operators would "shoot for 130," but a lack of rainfall is making it hard for the system to come up with much extra water.

By Nov. 6, biologists had counted 16 fish and 12 redds in Hamilton Slough, but were worried that low flows were making it hard for fish to enter Hamilton Creek. They reported that four more feet of water were needed for fish to be able to enter the creek. They also reported that a gravel patch near the I-205 bridge where chum like to spawn was still out of the water ***[B. R.].***

[10.2] Natural Gas Prices at California Border Attain New Heights

Natural gas prices in the West climbed to record levels last week, as a cold front pushed electric systems to the brink and residential gas users turned up the heat. Not only did San Diego Gas & Electric set a new record for gas deliveries, it had to curtail gas to large customers in order to keep the system in balance.

There were widespread rumors of gas delivery problems, but the major difficulty was experienced by distant gas producers trying to cram fuel into pipelines headed into California. The Southern California Border price hit $8.50/MMBtu midweek before dropping to $8.10/MMBtu.

Another factor in the psychology of pricing was the strong withdrawal from storage fields. Nationally, withdrawals overtook injections, helping to push NYMEX prices temporarily higher. In the West, the situation is even more extreme--as much as 1.5 Bcfd of gas is being pulled from storage and little is going back in because of heavy demand from power generators. Sources said storage levels are roughly 40 percent lower this year than last, and traders worried about the upcoming months if weather is extremely cold for long periods.

"With loads the way they are, we need to pull from storage," one trader said. "Everything coming into the state is full" ***[A. O'D.]***

AN INDEPENDENT NEWS SERVICE FROM ENERGY NEWSDATA

■ Monday, December 11, 2000 ■ No. 959 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

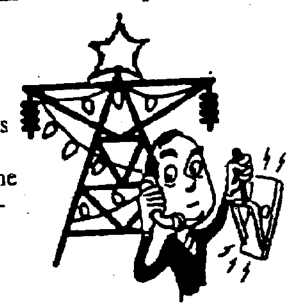
The Week in Summary

[1] NW Prepares for Power Shortages with Emergency Response Plan

A potential cold snap has forced the region to put its fledgling emergency energy shortage plan into play. On Friday morning, the Emergency Response Team agreed to issue a regional warning of a potential NERC Alert 2, a move that put into place several measures designed to significantly reduce load. Utilities and the public were called on to conserve and the hydro system will also likely be asked to boost production. Even though the plan is still a work in progress, the Northwest Power Pool, along with the NWPPC and PNUCC, believed the situation warranted immediate action. The plan spells out actions the region can take in the event of a shortage, including voluntary curtailments, implementation of demand exchange agreements, rescheduling maintenance-related outages and purchases from Canada or California. But officials warned against expecting much power from California, which faces its own power emergency. *No training wheels for the ERT at [16].*

[2] Western Power Prices Skyrocket as Likely Cold Snap Saps Supply

Spot power prices surged in the Northwest and California last week, as the regions braced for predicted temperatures well below the norm. Northwest utilities asked their customers to cut back their energy use, while scores of industrial customers reduced output or shut down completely rather than pay the higher power prices. In California, the Independent System Operator on Dec. 7 declared its first-ever Stage Three Emergency, triggered by out-of-control gas prices and lingering outages at dozens of power plants in the state. The Emergency did not lead to rotating outages, however. Meanwhile, the California PUC--refusing to take generators at their word--conducted spot inspections of at least a dozen facilities that declared unplanned maintenance outages. *Northwest industrials turn out the lights at [14], while California's Christmas tree goes dark at [15].*



[3] BiOp Release Likely Postponed as Breaching Language Added

Release of the new hydro BiOp will likely be postponed for up to a week, NMFS spokesman Brian Gorman confirmed last Friday. George Frampton, acting chair of the White House Council on Environmental Quality, told federal agencies to "immediately" cease all activity associated with the BiOp's scheduled Dec. 15 rollout. Sources indicate the Clinton Administration

THE CLIPS

THE SEATTLE TIMES TUESDAY, DECEMBER 5, 2000

City Light surcharge extended

Average is $3 more a month through 2002

SEATTLE TIMES STAFF

Facing a deepening financial crisis at City Light, the Seattle City Council agreed yesterday to extend a monthly surcharge through 2002 and set up a $100 million line of credit to help cushion the utility from unprecedented wholesale price swings.

The surcharge amounts to about $3 a month for the average residential customer, or an extra 8 to 10 percent. The council had hoped to discontinue the extra charge, which will take effect Jan. 1, within 18 months. It's likely now the surcharge will be needed through 2002.

The surcharge is in addition to rate increases previously approved by the City Council: 5.6 percent this year and 6.2 percent in for 2002.

"We are not the only utility facing this problem," City Light Superintendent Gary Zarker said of the huge spikes in wholesale power prices.

City Light sought help from the council yesterday, in part, because it's about to issue $100 million in bonds to finance various capital improvements and didn't want to see its bond ratings downgraded.

In addition to unpredictable wholesale prices, City Light has been hampered by too little rain. In normal winters, it rains about 12 inches in November in the Skagit River watershed. This year, it rained less than 4 inches, said City Light spokesman Bob Royer.

In Eastern Washington at the city's Boundary Dam, it rained less than 2 inches in October and November, less than one-third of the normal rainfall, he said.

The lack of rain means City Light generates less hydroelectric power and must make up the difference by buying more in the open market.

"At the same time this is happening, the market continues its high pricing," Royer said.

City Light buys about 20 percent of its electricity on average over the year. And normally, it pays about $20 to $35 per megawatt hour.

"We're now paying $300 a megawatt," Royer said. "It's as if every three or four tanks of gas, you have to pay $25 a gallon."

Seattle still enjoys relatively cheap power and up until now has been somewhat insulated from the power crunch because City Light gets most of its electricity from dams it owns and from long-term contracts with the federal Bonneville Power Administration and other suppliers.

The vast majority of that is produced by the BPA, which sells the power to public utilities and industrial companies far below market rate.

In some California cities, customers saw their monthly bills double with little warning.

THE WALL STREET JOURNAL TUESDAY, DECEMBER 5, 2000

Natural-Gas Prices Jump as Mercury Falls

COMMODITIES

By PETER A. MCKAY
Staff Reporter of THE WALL STREET JOURNAL

Natural-gas prices, which already had been rising all year, shot up 11.4% to an all-time high at the New York Mercantile Exchange yesterday in reaction to cold weather in the Northeast and forecasts of more to come.

For consumers, the price surge—putting natural gas at more than triple the year-ago level—could show up in home-heating bills soon.

Even those who use heating oil could see an increase, analysts say; some customers may begin substituting heating oil for gas if the latter remains expensive and trigger a run-up in heating oil. That could occur despite a drop in the price of crude oil, from which heating oil is refined. Yesterday, the natural-gas rally buoyed heating-oil prices by 3.8%, or 3.76 cents per gallon, to $1.0084.

In some ways, improbably, natural gas is rallying as a New Economy play. Demand for natural gas has increased in recent years in part because of the increased use of computers, which require electricity, often from gas-fired power plants. That has been depleting reserves and driving up prices by a total of 218.9%, or more than $5, since a year ago.

After yesterday's trading, in which January-delivery gas prices on the Nymex leapt 76 cents to $7.433 per million British thermal units, some analysts openly speculated that the country's depleted gas stores may soon hit zero. Without that cushion, consumers' monthly bills would be exposed to the slightest fluctuations in the wholesale market—where prices don't seem to be declining soon.

"The panic hit today" in the markets, said analyst Phil Flynn, of Alaron Trading Corp. in Chicago. "This market kind of snuck up on us. If you go back three years, it looked like we had enough gas to last forever."

The market was so harried yesterday that Nymex announced an across-the-board one-third increase in its margin requirements to trade natural gas, effective with tonight's after-hours trading. In the market, margin is the portion of a contract's value that must be on deposit to guarantee a trade; exchanges raise margins when markets gyrate.

The so-called cash market for natural gas, or the off-exchange price for immediate use, has been even more volatile in some areas, especially in energy-strapped California, where it hit $20 per million BTUs yesterday.

"At this point, the gas price is so high that we're technically in no man's land," said analyst John Kilduff, of Fimat USA Inc.

The run-up may have started in late June when prices hit a then-all-time high of $4.686 per million BTUs, mostly from demand for gas to generate electricity for air conditioning, Mr. Kilduff said.

It was the first time that natural gas had hit such a high in the summer, and analysts said it signaled a fundamental shift away from gas's traditional importance as a commodity primarily for winter heating.

Now that winter is approaching fast, prices are soaring, in large part because of unusually low storage rates. As of Nov. 24, the American Gas Association estimated that there was 2.502 trillion cubic feet of gas in storage, about 11% lower than the five-year average for that date.

The focus on natural is a switch from last winter, when a heating oil was in the spotlight. Then, a crude-driven heating-oil price spike triggered a congressional outcry and consumer accusations of refiner price-gouging (no wrongdoing was ever found). Crude prices, which also have been soaring, though not as much as natural gas, fell 82 cents yesterday at Nymex, to $31.23 a barrel.

After yesterday's buying, many analysts expected natural-gas prices to fluctuate in the coming day largely on weather news, including a possible drop in the coming days if temperatures don't remain low.

"I don't know if the market's that strong to maintain what happened today without the weather cooperating," said Derek S. van Eck, president of Van Eck Global.

Nymex natural-gas margins increased to $10,000 per contract for clearing members; $11,000 per contract for nonclearing members; and $13,500 for nonmembers. One Nymex contract covers 10 billion cubic feet of natural gas, which is worth $74,330 according to yesterday's prices.

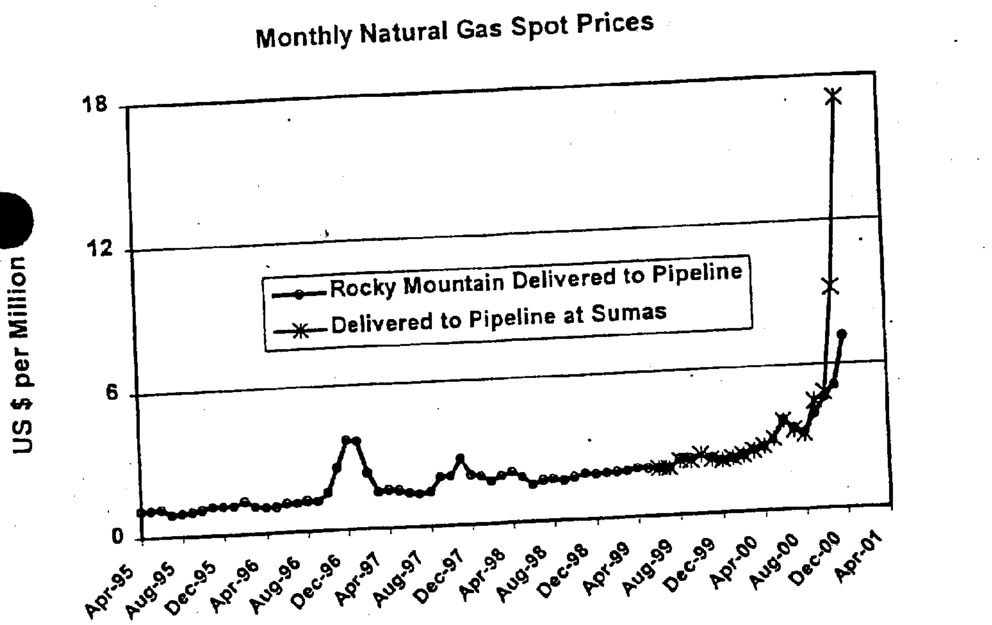
Northwest Numbers

[11] Northwest Spot Market Prices for Natural Gas Go Vertical

A long-awaited holiday present arrived recently, in the form of the Energy Information Administration's November Natural Gas Monthly publication. Inside are updated monthly state-level data not regularly available for some time. Long-time readers may recall the originator of Northwest Numbers lamenting as far back as three years ago that slow reporting on the part of an unnamed utility precluded regular updates of natural gas features. Data should flow freely now. But since virtually every single data point for dozens of series going at least to January 1999 was revised for the three states covered here, it will be a New Year before those records are fully updated.

Anyway, the most salient story in natural gas may have begun before August, but just recently rocketed to prominence regionally, and may not show soon in monthly Northwest consumption sums or even in statewide average retail prices. Of course I am alluding to the price of gas at the margin, spot market prices for contracts with durations of 12 months or less. Back around Halloween, readers saw a smirking Jack on this page, and speculation as to how long his smile would last. Most folks are well aware that the "scary" four and five dollars per million BTUs highs set then seem like fond memories of the old days now, just over two months later. Like electricity prices, gas prices have gone ballistic, leaving me with little to add to the copious coverage but the opportunity to depict the trend visually in order to make it even more real and palpable.

Notable is the divergence of Rocky Mountain spot prices from Canadian gas delivered to the pipeline at Sumas, Washington. For a long time, the difference between the two series was at most a few cents. In November, weighted prices for the month diverged by 79 percent, with Sumas commanding (US)$9.18 per MMBtu. Using December weekly data, the differential widened. Weekly weighted Sumas spot peaked at almost $30, 285 percent more than Rocky Mountain spot. In the following week, things calmed down, with Sumas at "only" $17.60. Rocky Mountain continued up to just over $8, "narrowing" the gap to around $9.50/mmBtu. In December of 1999 that gap was a penny. Monthly weighted prices of $7.14 for Rocky Mountain and $17.06 at Sumas left the two series 139 percent apart for December 2000.



What is not quick and easy to determine from readily available price data is how much of the regional supply is exposed to these extreme prices, versus quantities provided under long-term contracts at lower prices. Anecdotal information suggests that the regulated utilities pay prices posted regularly in trade papers without much haggling for their current supply, and that storage doesn't act as much of a price buffer. With the average weighted spot price for Canadian imports at all six border points up five-fold from a year ago, the exposed proportion doesn't have to be much to have ripple effects in pocketbooks, balance sheets, and even Arctic gas fields that will last for some time *[Alan Mountjoy-Venning, WSU Cooperative Extension Energy Program]*.

AN INDEPENDENT NEWS SERVICE FROM ENERGY NEWSDATA

Monday, February 5, 2001 ■ No. 966 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

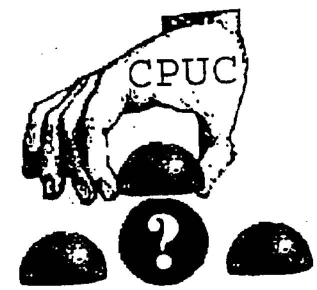
Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] PG&E, Southern CA Edison Audit Released; CalPX Closes Shop

The California Public Utilities Commission last week released a long-awaited audit of financially ailing Pacific Gas & Electric and Southern California Edison, which put the spotlight on transfers in the billions to parent companies. At its Feb. 8 business meeting, the CPUC will consider whether to investigate the utilities' adherence to regulations on holding company formation. Meanwhile, the bad news for California's marketplace continued, with the termination of daily auctions at the California Power Exchange and massive turn backs of direct-access customers by Enron and Green Mountain. *California's crises continue at [18].*



[2] Seattle Floats Debt with Downgraded Rating, OKs 18 Percent Rate Increase

With its municipal utility still crippled by a 20 percent exposure to the power markets, the Seattle City Council last week unanimously approved an 18 percent rate increase to take effect March 1. Half the increase is new, while the other half will come by retaining the annual winter surcharge, which itself went up 10 percent this year. The utility is floating some $300 million in commercial paper in the face of a half-point downgrade by both the major credit rating agencies. That's to pay for this year's added power costs; the debt will mean another increase in October, when SCL will substantially increase its load on BPA. But for the debt, SCL's rates would have actually gone down in October, even with the massive wholesale rate increases BPA is contemplating. *Add up the numbers at [14].*

[3] POTOMAC: No Consensus on Price Caps at CA Crisis Hearing

Northwest utility representatives want temporary caps on electricity prices, but California generators warned they would do more harm than good during last week's Senate Energy Committee hearing on the California electricity crisis and its implications for the West. Committee chair Frank Murkowski (R-AK) said California will have to address its responsibility to pay for power sold into the state under the Energy Secretary's executive order and accept construction of more power plants within its borders. Committee member Dianne Feinstein (D-CA) asked the generators to give California a chance to work things out, by pricing their power more reasonably, while Ron Wyden (D-OR) questioned

Daily Journal of Commerce, Seattle, Washington, Monday, January 29, 2001

New technology, high prices boost gas pipeline interest

◆ *Alaska political leaders are pushing a $10 billion, 2,000-mile route that would start at Prudhoe Bay and tie into an existing pipeline network linked to the Lower 48.*

By MAUREEN CLARK
Associated Press Writer

ANCHORAGE — For decades, Alaska's northern fringe has been intensively searched for large deposits of oil. Petroleum-industry crews are fanning across the North Slope again this winter, but this time some of them are looking for other riches: natural gas.

During the next three months, dozens of surveyors, heavy equipment operators and support staff will fire powerful volleys of sound into the ground — known as seismic testing — to learn the subsurface geology of the hilly, snow-covered tundra.

"This seismic program will give us another leg up in understanding this region," said Mark Hanley, a spokesman for Anadarko Petroleum Corp., based in Houston.

Tight supplies and rapidly growing demand have focused new attention on Alaska's huge but geographically remote natural gas reserves, discovered at the same time as oil in the late 1960s.

The current market imbalance has dramatically raised gas prices, long seen as an impediment to development. In addition, equipment improvements and regulatory changes have suddenly made viable a pipeline project that would link Alaska to North America's gas infrastructure.

"Basically, 21st-century technology has lowered the cost quite a bit," said Ken Konrad, Alaska gas development manager for BP Amoco Group. That technology includes high-strength steel that allows gas to be sent through a pipeline at high pressure and improvements in communications and remote control systems to operate the line.

The North Slope holds proven reserves of 35 trillion cubic feet of natural gas, but it's believed that vast amounts more remain to be found. The United States currently consumes about 21.5 trillion cubic feet of gas per year, with demand expected to grow by about 2 percent annually for the next two decades.

Alaska's three major oil producers — BP, Phillips Petroleum Co. and Exxon Mobil Corp. — control nearly all of the known gas reserves. They are working together on a $75 million study of the gas development project.

Anadarko has launched its multi-million-dollar exploration program in hopes of having some say when decisions are made about the proposed pipeline. And there are many decisions to be made, including the pipeline's capacity and its route.

Gov. Tony Knowles and other Alaska political leaders are pushing a $10 billion, 2,000-mile route that would start at Prudhoe Bay and run along highways in Alaska and northwestern Canada to Alberta, where it would tie into an existing pipeline network linked to the Lower 48.

A rival route would extend east from Prudhoe Bay into Canada along the Arctic Ocean coast before heading south along the Mackenzie River.

The Arctic coast route would be about 300 miles shorter and an estimated $2 billion cheaper than the Alaska route, and it could be used to transport some of the 9 trillion cubic feet of known natural gas in far northern Canada. But the route would almost certainly face strong opposition from environmentalists because it would skirt the Arctic National Wildlife Refuge and pass through miles of wilderness in northern Canada.

Either way, it would be Alaska's biggest construction project since the $9 billion trans-Alaska oil pipeline was built in the 1970s. Making the pipeline steel alone would take a year, and the oil companies would have to build a mammoth plant to strip water and other impurities from the gas and otherwise ready it for the long trip south.

A gas line isn't the only project that could tap North Slope gas.

Several companies, including Phillips and BP, have been studying how to convert the gas to a waxy liquid fuel that could be sold domestically or overseas. Another project calls for liquefying the natural gas and sending it by tanker to Asia or the Lower 48.

"In California they're talking about rolling blackouts. The time may be right for (liquefied natural gas) to be shipped to the West Coast as well as the Pacific Rim," said State Rep. Scott Ogan, who chairs a legislative oil and gas committee.

Also still to be decided is ownership of any gas line. Three communities along one of the prospective pipeline routes have formed a port authority — they say public ownership of the line would be exempt from federal taxes, which could cut billions of dollars from the project cost.

BP, Phillips and Exxon Mobil have assembled a team of about 50 engineers and regulatory experts to sort through the various issues, with a decision on a route expected later this year. If all goes smoothly, a gas line could be completed by 2007, said Joe Marushack, vice president of gas commercialization at Phillips Alaska.

While the recent high natural gas prices may have raised interest in an Alaska gas line, developers say they are not counting on prices to remain at current levels. Natural gas is currently selling on commodity markets for about $7.70 per thousand cubic feet. That's down from more than $10 last month, but more than three times higher than the price a year ago.

"We have to have a pipeline project that is as low-cost as possible so that it will weather not just the good times, but the low gas price times as well," Marushack said.

THE WALL STREET JOURNAL WEDNESDAY, JANUARY 31, 2001

Natural-Gas Producers Report That Output Continues to Fall

By CHIP CUMMINS
Staff Reporter of THE WALL STREET JOURNAL

As high natural-gas prices drive up home-heating and other bills, producers of the fuel are reporting that production continues to decline, suggesting that today's high prices won't be falling significantly anytime soon.

About 20 large natural-gas producers, accounting for close to 40% of domestic production, have so far reported fourth-quarter results. The result: Natural-gas production in the quarter was down 0.8% from the third quarter and off 3.7% from the fourth quarter of 1999, according to figures compiled by Lehman Brothers. Analysts, surprised by the trend, say gas production will need to start growing for prices to return to more traditional levels.

Analysts had been expecting higher natural-gas production in the fourth quarter after record selling prices prompted increased drilling. For instance, Baker Hughes Inc., an oil-services company, says 579 rigs were actively drilling for natural gas last week, up 41% from the year-earlier week.

"It is surprising because we had assumed that we would get some increases" in production, says Tom Driscoll, a Lehman analyst.

Total numbers for fourth-quarter production won't be available for some time. BP Amoco PLC, the country's largest gas producer, doesn't report until next month. But a host of companies have so far reported flat or declining production growth, including Burlington Resources Inc., one of the largest independent gas producers, and Kerr-McGee Corp., another independent.

All of them benefited as colder-than-normal temperatures in November and December helped drive up demand, sending natural-gas prices soaring above $9 per million British thermal units, sharply boosting fourth-quarter profits for many natural-gas producers. Yesterday, the New York Mercantile Exchange contract for delivery of natural gas in March was trading at $6.097 per million BTUs, almost three times the price of the comparable contract early last year.

In most cases, high gas prices have been passed on to residential and industrial users. Households across the nation have seen natural-gas bills more than double. Unable to operate profitably, aluminum and chemical makers have shuttered plants. In California, utilities and other generators say high natural-gas prices—used increasingly to power electricity plants—have contributed significantly to the state's energy crisis.

A number of factors have conspired to keep production from growing, industry executives and analysts say. Because natural gas is difficult to ship, most gas used in the country is produced here or piped from Canada. During the past few years, producers have used technological advances to squeeze more gas out of older fields in the U.S., Canada and offshore in the Gulf of Mexico.

But such new technologies have reached their limits in many cases, and those older fields are being emptied of reserves more rapidly than companies can find new deposits of natural gas. "Technology was winning for a while, but now Mother Earth is winning," Lehman's Mr. Driscoll says.

At the same time, oil and gas companies complain that federal restrictions have kept them from exploring promising new acreage, and they are now clamoring for more access from the Bush administration. "We're fighting depletion of wells, and we're fighting lack of access," says John Sharp, vice president for federal and state affairs at the Natural Gas Supply Association, an industry lobby group.

Some companies have bucked the trend. Devon Energy Corp., Oklahoma City, said yesterday that its domestic gas production grew 9% in the fourth quarter from a year earlier. Net income was $306.9 million, or $2.27 a diluted share, up sharply from $74.9 million, or 57 cents a share. Revenue was $850.1 million, up 68% from $505.2 million.

THE SEATTLE TIMES ◆ WEDNESDAY, JANUARY 31, 2001

Next energy crisis: natural-gas supply

BY LYNDA V. MAPES
Seattle Times staff reporter

Meet the next energy crunch: natural gas.

Energy planners see continued high gas prices and potential shortages within the next few years unless both pipeline capacity and gas supplies can keep up with potentially explosive new demand.

A proposed $10 billion natural-gas pipeline in Alaska might help address the problem, but that help is more than seven years away, planners say — and even if the pipeline is built, it's not clear whether the Northwest will have access to the gas flowing through it.

The Alaskan pipeline will be on the agenda Friday when governors from around the West, including Washington's Gary Locke, convene with the U.S. secretary of energy and several Federal Energy Regulatory Commission members at a Portland forum on the energy crisis convened by the Western Governors' Association.

Alaska Gov. Tony Knowles is expected to make his pitch for the $10 billion pipeline, which has already been endorsed by the association.

In Washington state, natural gas is primarily used by residential and commercial customers. But the current energy crisis has added a major new user: gas-fired plants to produce electricity.

At least a half-dozen gas-fired turbines are now in the proposal or permitting stage in Washington. If all of them are built, statewide natural-gas consumption is projected to increase 147 percent by 2010, according to the state Office of Trade and Economic Development.

It's not clear how that volume of natural gas could come to the state because both major gas pipelines serving Washington are already running near capacity.

One major pipeline company, PG&E Gas Transmission Northwest, is already mulling a new cross-Cascades line to meet future demand. The company is also beginning the first of what could be several expansions of its existing line, said Sandra McDonough, a vice president of PG&E National Energy Group in Portland.

"Basically our pipeline is very full right now to meet demand in the Northwest and California," McDonough said.

Energy planners concerned about gas supply have turned their eyes north to Canada, where there are less than 10 years of proven reserves, even based on current demand.

> *"We started doing our analysis and looking at the data and said, 'Uh-oh.' The whole pipeline infrastructure was not planned in anticipation of gas-turbine generation."*
>
> **DAVE WARREN**
>
> *Director of the energy-policy office at the state Office of Trade and Economic Development*

Gas prices in Washington state are already spiking, soaring last month on the spot market as high as $17 for a million cubic feet. Few see a return to the prices of less than $2 per million cubic feet that were routine just two years ago.

New plants would boost demand

Washington gets most of its natural gas from the Western Canada Sedimentary Basin. But gas that's easy to reach and process has already been tapped. Now suppliers are mostly drilling deeper wells and finding smaller pools.

Yet we may have seen only the beginnings of future demand.

"If we are going to put all our eggs in the turbine basket, or even any of them, we are going to need a way to increase delivery of more gas to the state in a quick fashion," said Dave Warren, director of the energy-policy office at the state Office of Trade and Economic Development.

"We have concerns about being able to meet our demands in the next five or six years if all of these generators come online, or even any of them."

But how helpful an Alaskan natural-gas pipeline could be to the Northwest depends on two things: how soon it is built, and what access Washington would have to the gas. The pipeline has been intended to tap abundant natural gas in Alaska's Prudhoe Bay and bring it to the Midwest.

On the most ambitious schedule, the pipeline could be delivering gas within seven years, said Wilson Condon, commissioner of the Alaska Department of Revenue.

And regional energy planners are likely to lobby at this week's governors conference for access to that Alaskan gas.

"It's obviously a potential piece of the solution," said Warren, who will be at the conference.

Planners caught by surprise

The natural-gas issue has taken some energy planners by surprise.

"It was a sleeper," Warren said. "We started doing our analysis and looking at the data and said, 'Uh-oh.' The whole pipeline infrastructure was not planned in anticipation of gas-turbine generation."

Mark Glyde of the Northwest Energy Coalition, made up of environmental groups and some utilities, warned that the region is making a big mistake if it seeks to solve its electricity woes by going whole-hog for natural-gas power plants.

"Let's not solve one crisis by creating another," he said.

A smarter course, Glyde said, would be a diversified menu of sources, including wind power — currently cheaper than natural gas, per kilowatt-hour — and conservation to reduce demand.

Paula Pyron, executive director of the Northwest Industrial Gas Users in Portland, sees several reasons for the gas-price increase and potential shortages ahead.

As of November, Canadian suppliers began sending gas east that the Northwest used to have sole access to. A new pipeline to Chicago means there is new demand for Canadian gas when the weather is cold both here and in the Midwest.

Increasing the pressure has been demand by power plants in California, which is already sucking in huge amounts of natural gas.

Finally, dry weather in the Northwest has raised the demand for gas to meet energy needs that can't be served by dams whose reservoirs are low.

Nonetheless, Carol Jolly, deputy policy director for Washington's governor, said the name of the game is not to endlessly increase supply but to get more efficient.

"We don't want to focus on the providing-more-supply side of the equation," Jolly said. "We want to focus on reducing demand. It's like highways. Building more doesn't mean you solve the traffic problem."

The convergence of two industries — natural gas being used to generate electricity — is also creating new interest by the public and private sectors in making a reality what for 20 years was only a pipe dream: the pipeline to tap natural gas in Prudhoe Bay. The North Slope has proven natural-gas reserves of 35 trillion cubic feet, the country's mother lode of natural gas.

By year's end, oil companies with rights to the gas are expected to spend $75 million studying the project.

Lynda V. Mapes covers energy and environmental issues for The Seattle Times. She can be reached at 206-464-2736, or at lmapes@seattletimes.com.

Daily Journal of Commerce, Seattle, Washington, Friday, January 26, 2001

County OKs $20.5M fuel cell project

RENTON — With no end to soaring energy costs in sight, King County is expecting big energy and environmental dividends from a fuel cell demonstration project that will turn methane gas from sewage into power to run the South Wastewater Treatment Plant.

King County entered into a cooperative agreement with FuelCell Energy Inc. Wednesday to install a one-megawatt, high-temperature fuel power cell power plant at the county's wastewater treatment facility in Renton. The total value of the contract is nearly $20.5 million.

The field trial is expected to showcase the technology's ability to use a renewable fuel source while controlling air emissions.

The cost for the two-year demonstration project is being shared by King County and FuelCell Energy through a cooperative grant to the county from the U.S. Environmental Protection Agency. Operations are expected to begin during the third quarter of 2002.

FuelCell Energy, based in Danbury, Conn., was selected for the project through a competitive process last July.

A typical daily power bill at the plant is $7,000, but the recent spike in rates bumped the power bill to as much as $137,000 when costs reached a peak in early December.

The county has responded by taking aggressive steps to reduce outside energy use, including the use of three diesel-burning power generators, said King County Executive Ron Sims.

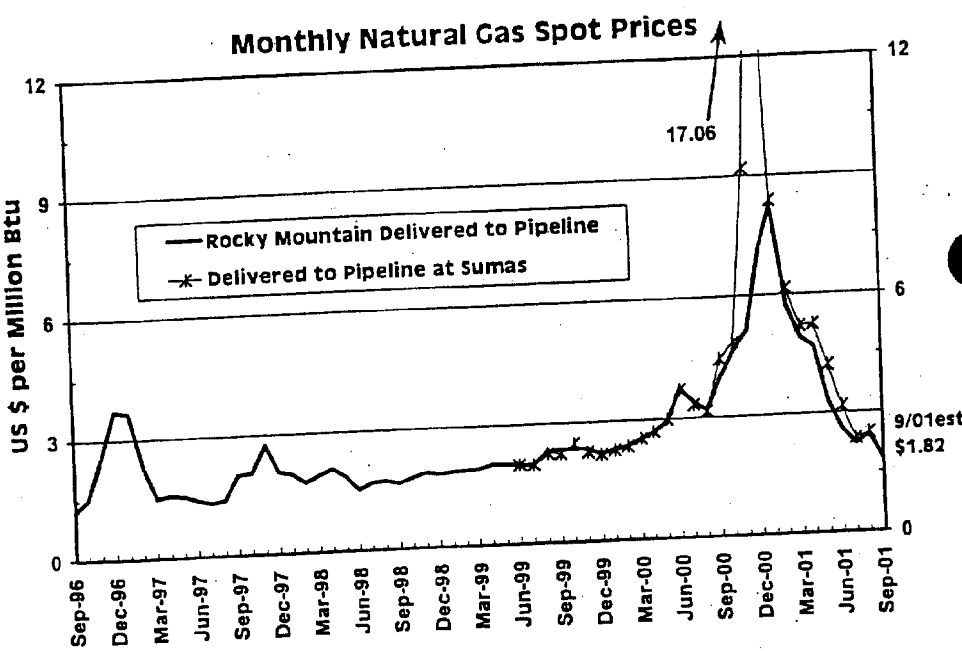
A high-temperature fuel cell power plant could play a key part in reducing the county's dependency on outside power sources.

Northwest Numbers

[13] Natural Gas Spot Prices Swoon with Soft Demand

Normal winter temperatures are predicted for much of the Northwest, and no rabbits are jumping out of the hats that smelters and Boeing will leave empty. So two forces that influence natural gas demand--cold temperatures and industrial activity--are unlikely to rush in to catch plummeting spot prices. Prices have taken an order of magnitude drop from December 2000's $17.06 per million Btu monthly weighted average price for gas at the Canadian border at Sumas to last week's $1.65 level set for Rocky Mountain gas delivered to pipelines. September monthly average spot prices will do well to stay much above $1.80 at either Sumas or Rocky Mountain price points.

Baby-bear mild weather is forecast in much of the populated Northwest and national winter residential and commercial gas heat demand should be softened by predictions of a notably warm winter season in the Northeast. Storage inventories are building, and demand from California is no longer seen as pressuring prices, even in futures contracts. Supply bottlenecks will be more than relieved if only pipeline projects already underway are completed this year and next. Declining electric demand there means that new combined cycle plants will mostly displace older inefficient gas facilities, resulting in an overall decline in generating demand.



Northwest generators' demand for gas will go down. Recent data coming out for the US aluminum industry show that annualized primary production is down by almost a third from levels set in the first half of 2000. Aluminum prices, already at two-year lows, are predicted to stay below levels warranting resumption of production from idled Northwest potlines. It is not clear to me how much of the airline and aircraft industry slump is factored into the predictions, but with inventories of aluminum at a peak, nothing points to a restart.

While obviously affecting electricity prices more directly, aluminum is only one of many industry groups declining or softening, and the reduced demand for gas from generators has rippled to gas spot prices and will continue to do so. With industrial activity already sluggish across the nation before the attacks in September, just about the only thing slowing the bears' charge down the price slide would be return of load from industrial users that had switched to oil. Gas has fallen more quickly than oil, and is well below levels that make distillate and fuel oil attractive substitutes. But the return to more normal hydro conditions will likewise displace more gas generation than is represented by fuel-switchers returning.

So all the caveats and unknowns postulated back in Issue 985 have settled firmly on the side of lower gas prices. By the next time we look at these prices, I won't be surprised if the line on the chart strikes lows on the right axis that rival the $1.20 level set on the left axis in September of 1996.

I hope then to also graph prices to residential consumers, to see if sharp rises of past months show a similar return from the stratosphere *[Alan Mountjoy-Venning]*.

AN INDEPENDENT NEWS SERVICE FROM ENERGY NEWSDATA

Monday, November 5, 2001 ■ No. 1005 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

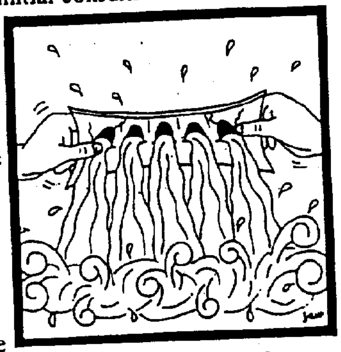
Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] Competition for Priest Rapids License Begins in Earnest

PacifiCorp and the Yakama Nation officially threw their collective hat in the Priest Rapids relicensing ring last week by filing their initial consultation document for a competing license with FERC. The document, filed Oct. 29 by the Yakama Hydroelectric Project LLC, outlines the utility's and the tribe's joint plans to develop an application for the Priest Rapids complex hydro license now held by Grant County PUD. Specifics will come later; for now, the ICD outlines six themes that will guide their development--among them, sharing the project's benefits more broadly, optimizing project operations and extending its benefits to "new areas and peoples." *Grant PUD, meanwhile, seems unfazed at the filing at [18].*



[2] States to FERC's Brownell: We're Not Ready For a West-Wide RTO

A day before FERC held its first conference on Western energy infrastructure issues in Seattle last Friday, Commissioner Nora Brownell attended the Committee on Regional Electric Power Cooperation meeting, also held in Seattle last week. Brownell said she was there to listen, but made it clear she wanted to steer the group toward RTOs that make sense. Attendees who have been working on at least three RTO proposals for the region were pretty clear themselves. *'We're not ready for marriage' at [23].*

[3] WUTC OKs Contracts, Not Super Firm Tariff, for Data Center Customers

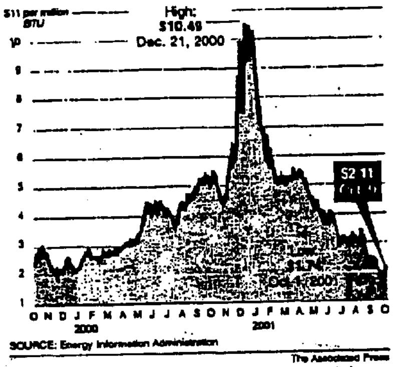
Puget Sound Energy's Schedule 48 expired Oct. 31, but Internet Data Centers that had no other tariff to go to got some interim relief from the Washington UTC. Commissioners, who had turned down PSE's proposal for a "super-firm" tariff rate, on Oct. 24 approved special contracts as a stopgap measure until Puget's general rate case is settled. *Puget's other big users likely to qualify for similar treatment at [19].*

[4] Exchange Energy From California Will Bolster BPA Reliability

As of midnight on Halloween, California had returned to BPA all of the energy still due in connection with the exchanges worked out during the state's spring and early summer power emergencies. BPA didn't need additional power last month, but the return helped the

STATESMAN JOURNAL ■ SUNDAY, OCTOBER 21, 2001

Natural gas prices



SOURCE: Energy Information Administration
The Associated Press

Gas prices decline; bills rise

Northwest Natural has a supply of high-priced fuel for a low-cost market.

BY MICHAEL ROSE
Statesman Journal

Wholesale natural gas is getting cheaper, but ratepayers still will have to reach deeper into their pockets to pay the utility bill.

The timing of a steep rate hike in Oregon, which doesn't jibe with falling wholesale prices and slackening demand for energy, is an unexpected outcome of the Northwest Natural Gas Co. strategy of buying gas early in the year. Buying early on forward contracts usually holds the line on rate hikes. This year it has left the company with a supply of high-priced gas in a low-cost market.

"At the time when gas companies were locking in contracts, those contracts looked really good," said Reed Harris, a utility analyst with the Oregon Public Utility Commission, the state agency that oversees utilities.

"I think they were trying to be prudent," said Bob Jenks, executive director of the Citizens Utility Board of Oregon, a consumer watchdog group.

This month, residential customers and businesses began paying on overall rate hike of more than 20 percent.

Regulators granted the rate increase to offset NW Natural's increased cost of buying natural gas, which it had agreed to purchased on forward contracts. For some NW Natural customers, the higher bills could arrive in the mail as as early as the first week in November.

Natural gas consumption for heating homes is usually the highest in January. That means the average residential customer, whose monthly heating bill was about $118 in January, probably will get a $141 bill in January 2002.

NW Natural's underground storage fields in Mist, about 50 miles northwest of Portland, gives it the capacity to buy in advance. If the company's judgment is on target, it can buy when prices are the lowest.

But this year's topsy-turvy energy market has thwarted the best-laid plans.

Gas the company bought on contract for $4 to $6 per 1,000 cubic feet looked like a bargain. Wholesale prices had rocketed to an unheard of $50 per 1,0000 cubic feet in December, and then stabilized at $10.

But then the natural gas shortage evaporated, sending wholesale prices plummeting. Prices have hovered around $2 in recent weeks, said the PUC's Harris.

Why can't NW Natural buy the $2 gas?

In fact, it is buying a portion of its gas on the spot market. Most of its supplies, however, are tied to forward contracts with wholesalers. And it's obligated to pay the contract price.

Earlier this year, such a turnabout in prices seemed unlikely. Driven by the energy scare in California and the expectation that demand would grow, wholesale prices were poised to stay high.

Industry experts had warned that tight supplies would mean a continued runup in wholesale prices for two or three years. That triggered a flurry of exploration and drilling. Meanwhile, many utilities, including NW Natural, bought early in hopes of getting the best price possible.

Harris, and other experts, said the run-up in prices was short-lived for several reasons:

- Cooler than expected weather in California reduced demand for electricity, and in turn demand for natural gas to fire generators.
- High priced natural gas caused industrial users to conserve fuel, or close entirely.
- The downturn in the national economy has led to plant closures, reducing the nation's thirst for energy.

Supply has caught up with demand, and a price drop as surprising as last year's rapid upswing is rippling through the gas market. The plunge in prices has idled drilling rigs in major natural gas producing states such as Texas, New Mexico and Wyoming.

Steve Sechrist, a spokesman for NW Natural, said the company has no plans to change its practice of buying forward. In fact, the company couldn't rely on the spot market to keep its customers adequately supplied.

"Pretty much everybody was surprised; this is sort of the reverse of what usually happens," Sechrist said.

If wholesale prices continue to stay low, the lower prices eventually will result in rate decreases, perhaps in another year, he said.

Other natural gas utilities in Oregon recently have raised their rates, too. Customers of Cascade Natural Gas, a utility serving portions of Southern and Eastern Oregon, are shouldering an overall 5.7 percent rated hike. Cascade and Avista, a Southern Oregon utility, also were granted two rate hikes in 2000.

NW Natural had one overall rate hike of about 21 percent in 2000. Last year, NW Natural officials credited the company's forward contracts and storage capacity for avoiding a second rate increase – and saving ratepayer's money.

The Spokesman-Review
Wednesday, October 24, 2001

Cogentrix may air-cool energy plant

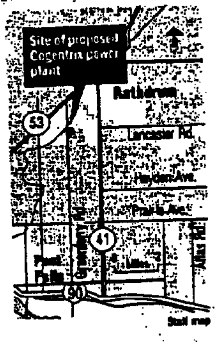
Technology would cut company's use of water from Rathdrum Prairie Aquifer by 90 percent

By Benjamin Shors
Staff writer

COEUR d'ALENE — A proposed natural gas plant in North Idaho may use air-cooling technology that would dramatically reduce the amount of water drawn from an aquifer shared by Washington and Idaho.

The technology would reduce water use by 90 percent, a company spokesman said Tuesday.

"If water is just not going to be available, it's one of the only options we have," Jef Freeman, a spokesman for Cogentrix Energy, said at the Regional Energy Forum at the Coeur d'Alene Inn.



Staff map

But using water to cool steam at the plant remains the most economical solution, Freeman said.

Cogentrix has requested a water permit that would allow it to pump 7 million gallons a day from the Spokane Valley-Rathdrum Prairie Aquifer. A hearing on the water permit, which was contested by a coalition of environmental and labor groups in both states, is scheduled for January.

"Air cooling is certainly an improvement over using the water resources," said Rachael Paschal Osborn, an attorney for the groups. "It's feasible from a design and an economic standpoint."

The air-cooling technology is more expensive and noisier, experts say, but it has slowly spread through the region as water rights become more difficult to obtain. In Alderdale, Wash., Cogentrix plans to use air cooling for its proposed 850-megawatt plant, according to a state regulator.

"Getting water in Washington state is getting very hard to do," said Michelle Elling, a project manager for the state's Energy Facility Site Evaluation Council, which oversees the plant's air and water permits.

In Idaho, similar water battles are surfacing around the state, forcing energy companies to search for alternatives to water use.

Last week, Idaho regulators issued an air permit to a Middleton, Idaho, plant using the air-cooling technology.

"There's always an economic trade-off," said Randy Hill, president and CEO of Ida-West Energy, the developer of the plant. "There's no question that if you have the water available, it's a more efficient way to produce power."

Hill said the 273-megawatt plant would produce about 10 megawatts less power than a similar water-cooled plant. The plant will use an average of 150,000 gallons of water a day, about one-tenth of the water used by Cogentrix's existing 270-megawatt plant.

The plant will operate most efficiently on colder days and will eliminate any steam plume, Hill said. It will also have sound-dampening equipment to lower noise.

But the increased cost — both in start-up construction and maintenance — may make Cogentrix's proposed plant too expensive to operate, Freeman said. He estimated that if Cogentrix had used air-cooling technology at its existing $160 million plant, construction costs would have increased by $7 million to $10 million.

Hill declined to comment on how much more it will cost to build and operate the Middleton plant.

At Tuesday's forum, Steve Allred, director of the Idaho Department of Environmental Quality, said there are trade-offs with every type of energy generation.

"There is no panacea," Allred said. "All of these things come with some impact."

SEATTLE POST-INTELLIGENCER I SATURDAY, OCTOBER 27, 2001

Credit rating is cut for Seattle City Light

SEATTLE – Seattle Municipal Light & Power credit ratings were cut for the second time this year, affecting $2.2 billion in municipal bonds, after higher-than expected power costs drained cash reserves, Standard & Poor's said yesterday.

S&P lowered its rating to "A+" from "AA-" on bonds backed by the city-owned utility. The downgrade also affects $75 million in Boise-Kuna Irrigation District, Idaho, revenue bonds backed by the Seattle utility.

City Light sidestepped more deficits by raising customer rates almost 58 percent this year, but "additional rate increases in 2002 are likely" if below-average rainfall reduces hydroelectric generation, Standard & Poor's said in a statement.

AN INDEPENDENT NEWS SERVICE FROM ENERGY NEWSDATA

Monday, November 12, 2001 ■ No. 1006 ■

CLEARING UP

NORTHWEST ENERGY MARKETS

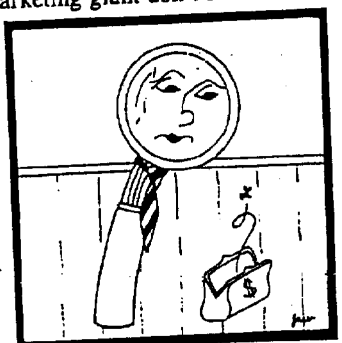
Energy and Utility News for the US Pacific Northwest and Western Canada

Inside. . .

The Week in Summary

[1] Enron's NW Power Deals Appear Solid As Dynegy Considers Takeover

In spite of mega energy company Enron's recent and continuing dramatic fall from Wall Street's graces, Northwest utilities that have bought and sold power through the power marketing giant don't seem too worried about the security of those transactions. Most of those *Clearing Up* surveyed say the power marketing activities are the most solid aspect of the company, and problems in the corporation's other areas aren't expected to spill over.



Meanwhile, Dynegy Corporation last week offered $8 billion for Enron--although some in the financial community think the deal could quickly come apart. *Regardless of whether the deal goes forward, existing transactions should not be in jeopardy at [19].*

[2] Fishing, Enviro Groups Sue Bonneville For This Year's "Salmon Massacre"

Several environmental and fishing groups have filed a lawsuit in the Ninth Circuit Court alleging that BPA violated the NW Power Act by operating dams this year to the detriment of salmon runs. Critics of the federal power marketing agency say the drought-induced power emergency was no excuse to shortchange salmon. "BPA treated salmon as expendable, rather than treating them equitably," said the Sierra Club's Bill Arthur. *Groups doubt things were really as bad as BPA said at [17].*

[3] WUTC Allows Puget to Stop Nickel Credits for Kilowatts Saved

The Washington UTC has allowed Puget Sound Energy to stop crediting customers a nickel for every kilowatt hour saved over 10 percent. The move is meant to stop losses in a market where power sells for less than five cents/KWh. But commissioners would not let Puget defer its estimated losses in the Conservation Incentive Credit program and get them back through a surcharge. *Conservation credit cut, but no cost recovery at [15].*

[4] FERC Clarifies RTO Expectations After Criticism From West

Following up on a series of workshops it called "RTO Week" and its Seattle meeting on Western infrastructure issues, FERC last week issued an order clarifying its expectations on the development of regional

THE SEATTLE TIMES **BUSINESS** SATURDAY, NOVEMBER 3, 2001

Energy prices drop, a reversal from a year ago

Cost of gasoline and natural gas for home heating likely to stay low this winter

BY BRAD FOSS
The Associated Press

NEW YORK — Energy markets have done a complete flip-flop from a year ago, with a gallon of regular gas selling for under $1 in many parts of the country and home-heating prices expected to drop by a third this winter.

With ample crude inventories but reduced demand for gasoline, jet fuel and the distillates that power manufacturing plants, traders have sent the price of oil to $20.18 a barrel, its lowest since July 1999.

"It's demand worries and a complete lack of faith in the credibility of OPEC," said Tom Kloza, director of the Oil Price Information Service in Lakewood, N.J.

Kloza said members of the Organization of the Petroleum Exporting Countries are not in compliance with existing quotas and that the cartel is widely assumed to be pumping 1 million barrels per day more than the official output target of 23.2 million barrels a day. The 11-member organization produces roughly 40 percent of the world's oil.

"They need to produce what they're supposed to be producing and then cut output by 750,000 barrels a day to restore the supply-demand balance," he said.

In the United States, crude supplies are nearly 10 percent higher than a year ago, according to the Energy Department, and prices for various fuels have fallen dramatically since the beginning of the year.

Consumers should expect big savings this winter, analysts said.

Natural gas, for example, is about one-third cheaper than it was a year ago at $3.25 per 1,000 cubic feet. That's because producers cranked up production during the spring and summer after prices spiked to $10 per 1,000 cubic feet last winter when supplies were low.

Natural gas is the home-heating fuel of choice for roughly 55 percent of U.S. households, and consumers can expect to save about 34 percent on their bills compared with last winter, according to the Energy Information Administration, the statistical arm of the Energy Department.

The agency expects the price of heating oil, a crude derivative, to average $1.19 per gallon this winter, compared with $1.36 a year ago — a 12.5 percent decline.

The supply of heating oil, which is similar to jet fuel, has grown in recent weeks, analysts said, as refiners adjusted production after the Sept. 11 terror attacks dampened the airline industry's energy demand.

Americans are already saving considerably at the pump. The average price of regular gasoline was $1.24 a gallon at the beginning of the week, down 31 cents from a year ago and the lowest level in two years.

In parts of many states, including Georgia, New Jersey and Texas, motorists are filling up their tanks for less than a buck a gallon. The highest prices are typically paid on the West Coast and northern Rocky Mountain states.

Analysts said consumers should enjoy the lower prices while they last, though.

After all, if gasoline prices can swoon this low because of an estimated 2 percent decline in average daily demand of about 8.5 million gallons, a reversal is likely when seasonal demand picks up in the spring, said Mike Fitzpatrick, a trader at Fimat USA in New York.

The cheap gas should be available "through the New Year," Fitzpatrick said.

That's about when the output cut of 1 million barrels a day that OPEC is widely expected to announce Nov. 14 should take effect, he said.

"That's too far in the future to make a difference now," said Peter Beutel, publisher of the Cameron Hanover Energy Hedger, an industry newsletter.

Oil is so cheap these days that President Bush might order the government to pump an additional 100,000 barrels a day into the country's existing emergency stockpile of about 540 million barrels.

By comparison, at this time last year crude cost about $32 a barrel and then-President Clinton — on Nov. 10, 2000 — approved a bill giving him the authority to tap the Strategic Petroleum Reserve to help bring down prices.

THE WALL STREET JOURNAL TUESDAY, NOVEMBER 6, 2001

Canada Isn't Natural-Gas Panacea for U.S.

Doubts Are Growing About Region's Ability to Boost Exports

By TAMSIN CARLISLE
Staff Reporter of THE WALL STREET JOURNAL

CALGARY, Alberta—Think Canadian natural gas will easily and cheaply cover a U.S. supply shortfall? Think again.

With U.S. gas producers finding it tough to boost output, Americans are looking north to help satisfy demand. Canada supplies about 16% of the natural-gas consumed by its southern neighbor, up from 11% in 1995. But with its own productive capacity peaking, Canada isn't likely to provide a sustained fix for U.S. gas consumers, specialists here caution.

That could lead to a supply crunch when a U.S. economic recovery takes hold. According to most analysts, U.S. demand for natural gas probably will expand steadily in the long term, due mainly to the fuel's increasing use in electricity generation, while domestic supply stays flat. Even in its latest short-term forecast for natural-gas demand—revised to reflect economic fallout from the Sept. 11 terrorist attacks—the U.S. Energy Information Administration projects domestic demand rebounding by 3.9% in 2002 after falling 2% this year.

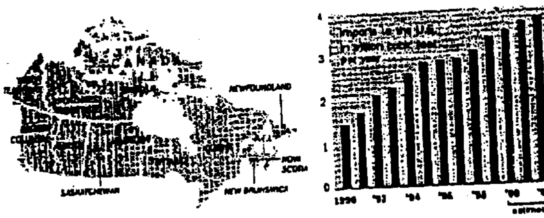
To address anticipated demand growth, U.S. energy companies have been snapping up natural-gas companies and assets in Canada, made cheaper by low natural-gas prices and the strong U.S. dollar. In October, for example, Burlington Resources Inc., Houston, offered $2.1 billion for Canadian Hunter Exploration Ltd., Calgary.

But doubts are growing about Canada's ability to keep boosting its gas exports in the long run.

Here in the country's energy-rich West, many producers are having a hard time uncovering enough gas to replace tapped-out sources. In Alberta, which accounts for 85% of Canada's gas output, provincial regulators expect production to peak in 2003 and to decline by 2% annually from 2005 to the end of this decade.

"You have to keep drilling faster and faster; the industry is stuck on a treadmill," says Rob Woronuk, an analyst with the industry-affiliated Canadian Gas Potential Committee. The committee, headed by a former chairman of Canada's National Energy Board, tracks reserve estimates for every known gas prospect in Canada. In the U.S., the federal Department of Energy provides a parallel data service.

Growing Dependence on Canadian Natural Gas



Source: Energy Information Administration

"It is getting more difficult to find gas as we're having to move into the deeper areas," says Greg Stringham, vice-president of the Canadian Association of Petroleum Producers. "There are high decline rates in the shallow drilling areas." The decline rate measures the amount by which natural-gas production drops off over time.

There still are some big pools of natural gas to be found here. In remote northeastern British Columbia, oil-and-gas companies including Alberta Energy Co. and Canadian Natural Resources Ltd., both of Calgary, next year could pump as much as 1.35 billion cubic feet of gas a day from a recent discovery of about one trillion cubic feet of gas. The projected output would equal the capacity of a major pipeline that whisks natural gas from western Canada to the U.S. Midwest.

But Brian Prokop, another Peters analyst, says discoveries that big occur in western Canada about once every 15 years.

Based on geological analysis, the Canadian Gas Potential Committee reckons just three gas pools of that size or larger remain to be discovered in western Canada; the committee says it isn't likely that all will be found in the near future. The committee also estimates that western Canada contains more than 80% of Canada's remaining marketable gas.

Other analysts note that pipeline companies haven't announced plans to expand natural-gas export capacity from western Canada, despite near-record gas production from the region during the past 12 months. Some predict Alberta will consume more of its own gas as development of the province's huge oil-sands deposits proceeds, leaving less gas available for export to the U.S. Oil-sands operations consume large amounts of electricity and steam, most conveniently produced on-site by burning natural gas.

Throwing cold water on recent enthusiasm for northern gas development, the gas-potential committee found that two decades of drilling in Canada's Far North haven't confirmed abundant new supplies of marketable gas there. The region once was thought to contain gas reserves so vast they eventually could replace western Canada's. An estimated 35 trillion cubic feet of gas in Canada's "near frontier" areas—mainly the western Arctic's Mackenzie Delta and offshore Nova Scotia—accounts for just 15% of the country's remaining marketable gas, the committee estimates.

The Nova Scotia resource is most promising, as it lies close to major U.S. population centers. El Paso Corp., Houston, last month announced plans for a $1.6 billion undersea pipeline to carry the gas to Nova Scotia's capital of Halifax and the U.S. Northeast. But total gas in this region could prove to be less than one-tenth of western Canada's 142 trillion cubic feet of marketable gas potential, the committee says.

Meanwhile, low natural-gas prices are casting a pall over highly publicized plans to develop Alaskan and Mackenzie Delta gas. The economic slowdown, coupled with nearly full gas-storage facilities, has dragged near-term North American gas prices to about $2.90, compared with last winter's peak levels of close to $10 per million British thermal units.

For now, producers including Exxon Mobil Corp., Royal Dutch/Shell Group and Conoco Inc. are pressing ahead with a feasibility study for Mackenzie Delta gas. They recently signed a memorandum of understanding with Indian groups in northern Canada to clear the way for a pipeline. But another consortium composed of Exxon, Phillips Petroleum Co. and BP PLC recently concluded that building an Alaska natural-gas pipeline at an estimated cost of $15.1 billion or more wouldn't be economical at this time.

That leaves the U.S. dependent on western Canada for a large chunk of its natural-gas supply. Flush with cash from a bull run in energy prices, western Canada's producers have punched down a record number of wells this year. But many industry observers predict a sharp drop in activity in 2002. The Canadian Association of Drilling Contractors recently slashed its drilling forecast for this year's second half by 30%.

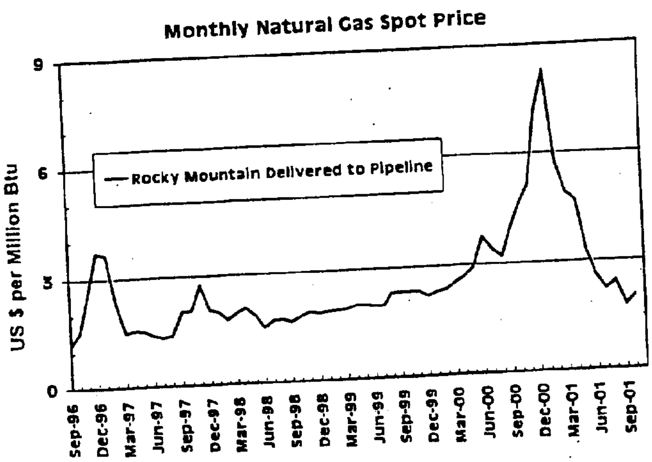
WSJ.com **Journal Link:** Service-sector activity dropped sharply in October. See the text of the latest economic report in the online Journal at WSJ.com/JournalLinks.

Northwest Numbers

[12] Regional Natural Gas Consumption Data Still Spotty

It is still a struggle to get complete monthly natural gas consumption data to incorporate into the tables and charts used here in the past. Energy Information Administration (EIA) staff have reported that "We have been having unprecedented challenges in getting the Natural Gas Annual [published]." But some serious ferreting and casual estimates for a few missing data points enables the return of the long-lost regional natural gas table, albeit with some potential flaws.

Spot price data, as reported in *Natural Gas Week* and elsewhere, remains intact. In the interest of legibility and simplicity, Sumas prices have been dropped from the spot price chart now that the spread between Sumas and Rocky Mountain prices shown here have shrunk to single percentages. The weighted monthly spot price in October for Sumas was $1.89 per million Btu, compared to the Rocky Mountain's price of $2.03/mmBtu. The September price for the latter fell to $1.76, even lower than the $1.82 estimate I provided here in Issue 1000.



At press time crude oil prices are falling well below $20 per bbl to levels not seen for two years, with speculation that we may again see the $10 per barrel price by spring, should the global economy not recover by then. Such low oil prices would pressure natural gas lower. But I have to agree with Don Mulrain, general manager of commodity marketing at Husky Oil, who was quoted recently as saying "Energy price forecasters make sheep look like independent thinkers."

On the consumption side, it is worth noting that regional gas use in all sectors continues to rise steadily. To see if continued high retail prices for gas will dampen this trend, we will have to wait until EIA has a chance to get caught up *[Alan Mountjoy-Venning]*.

Regional Natural Gas Statistics

	Total Natural Gas Use By End Users		Natural Gas Use By Sector				Natural Gas Prices and Rates		
	BCF	% Chg	Residential BCF	Commercial BCF	Industrial BCF	Electric Utility BCF	Spot Market Price at Rocky Mountains $/MMBtu	Average City-Gate Rate $/MCF	Average Residential Rate $/MCF
Annual Data									
1980	241.7	-	55.5	51.7	134.5	1.3	-	-	5.36
1985	246.2	-	62.2	63.5	120.4	0.1	2.17	3.80	6.75
1990	290.6	4.8%	72.3	67.7	150.6	7.6	1.33	2.11	5.43
1995	382.1	3.2%	93.8	75.3	212.9	25.5	1.07	2.25	6.10
1996	434.1	13.6%	110.8	85.2	238.0	20.6	1.52	2.41	5.76
1997	429.7	-1.0%	109.6	83.6	236.6	13.3	1.96	2.55	5.66
1998	465.8	8.4%	112.4	83.2	270.2	42.2	1.81	2.42	6.06
1999	488.7	4.9%	128.2	91.9	268.6	30.0	2.01	2.67	6.19
2000	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	3.66	#N/A	#N/A
12 Months Ending									
Jul-01	516.2	3.3%	132.2	112.6	271.4	114.3	-	-	9.10
Monthly Data (year-to-year percent change)									
May-00	34.7	1.1%	7.7	6.0	21.1	3.3	2.93	3.32	7.24
Jun-00	32.8	18.6%	5.2	4.7	22.8	8.2	3.74	4.69	7.66
Jul-00	29.6	12.7%	3.4	3.7	22.5	10.4	3.40	4.91	8.46
Aug-00	30.5	13.1%	2.7	3.4	24.4	11.6	3.19	3.86	9.34
Sep-00	31.7	11.2%	3.5	3.8	24.5	10.5	3.97	3.69	9.31
Oct-00	36.6	-6.4%	5.6	4.7	26.3	11.1	4.61	5.15	8.97
Nov-00	44.7	1.1%	12.4	9.7	22.5	9.1	5.12	4.98	8.63
Dec-00	52.9	-7.1%	20.0	12.8	20.1	8.6	7.14	5.23	8.36
Jan-01	55.9	-8.4%	20.9	13.7	21.3	7.6	8.27	8.02	8.48
Feb-01	57.4	5.9%	20.4	13.0	24.1	10.7	5.74	5.68	9.35
Mar-01	50.6	0.1%	16.3	10.7	23.5	9.1	4.90	4.80	9.63
Apr-01	44.2	7.1%	13.0	8.9	22.3	9.1	4.68	4.88	9.72
May-01	37.2	6.9%	8.6	6.8	21.7	9.3	3.29	5.25	9.97
Jun-01	40.1	22.4%	5.1	14.5	20.6	8.0	2.58	4.30	10.50
Jul-01	34.4	16.2%	3.6	10.6	20.1	9.6	2.21	2.23	10.91

Sources: US Dept. of Energy; NATURAL GAS WEEK. The use data cover Washington, Oregon and Idaho.