

1998 - The Restructuring Process Unfolds

By Fereidoon P. Sioshansi*

A hundred years from now, 1998 will be remembered as the year when it all began. Starting with California, by far the most populous state in the Union, down to Rhode Island, the smallest of the lot, industry restructuring is beginning to unfold around the United States. By the time the new millennium comes around, it will be the norm, not the exception, as other states follow suit. And as was the case with telecommunications (which closely resembles the electric power industry in a number of ways), competition will bring significant savings to some while massive, unnecessary confusion to others.

Competition is choice and having a choice is what Americans love, be it in renting a car or buying a soft drink. But will electricity prove to be a difficult and boring thing to shop for? Will enough people know how to do it or care enough to exercise their options? Will anybody switch suppliers given the admittedly small savings for the average consumer, the perception of risk, and the hassle factor involved? In the last issue of the *EEnergy Informer*, we asked "Who Will Switch Suppliers For A Measly 2-5% Savings?", referring to the typical savings expected in California. At the time of this writing, we don't have a clue, state regulators (in California) don't know either, and those who do are not talking. An \$89 million public education and information campaign in California has so far generated mostly yawns. Some 23,000 calls were received at a toll free number by mid-December from bewildered customers, most of whom only wanted to know how much their electric bills would drop?

But the 200 retailers and over 35 aggregators who have so far flocked to California from everywhere do not seem to be discouraged. They have been busy trying to sign up customers starting in November, and will be able to switch them over starting January 1, 1998. The incumbents are not sitting idle either. They have been reminding customers that they took good care of them all these years, encouraging them to hang around with them.

Most small customers are likely to do nothing, in which case they will remain with the incumbents who will buy electricity from the power exchange at prevailing prices and pass it on to them. This default provision is not a bad one for all but the most savvy and sophisticated of customers. As was pointed out in another *EEnergy Informer* article ("Will Competing Retailers Be Able To Beat The PX's Price?" October '97), it will be hard to beat the power exchange's price unless you are considered special or among a select group of customers in which case you may be offered a special deal (see below).

How Can Montana Power Offer Such a Good Deal?

California Manufacturers Association (CMA) is not your average lobbying group. Its 1000 plus members include well known giants such as Intel and Chevron who collectively run electricity bills on the order of \$300 million annually.

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During the California's drawn-out political debate on how to restructure the electric power industry, CMA showed its muscle on numerous occasions. Now, it has pulled off another major coup for its members: the option to sign with an eager power marketer who is willing to offer standard two-year contracts at 8 percent below the power exchanges (PX) prevailing prices.

After checking out several other bidders including the state's two big utilities, PG&E. Corp and Edison International, CMA announced in early November that it has selected to go with Montana Power Trading & Marketing Co., the marketing subsidiary of Montana Power. Montana Power? What are they doing in California? And how can they beat the PX's price by 8 percent?

The former question is easier to answer than the latter. Montana Power, like many other power marketers wants a foot in the California's market to learn first-hand, to gain some exposure, and to test the market. Without the clout and the advertising budget of the likes of Enron and Southern Co. how can a small company get in the door? By offering a steal of a price. And that appears to be what Montana Power has pulled off with its incredible offer. Frank Rotondi, President of Montana Power put it bluntly when he said "It's an excellent point of entry into the market."

CMA members are not obliged to buy, but they have the right to do so - and it would seem stupid for them to decline the opportunity. Montana Power also offers longer term contracts with a variety of risk-managed options. William Campbell, President of CMA was delighted taking special pleasure in pointing out that Montana's offer was selected over less attractive offers by the two California-based utilities. In an interview with *The Wall Street Journal* (3 November 1997), he was quoted as saying, "I think if they (PG&E and Edison) want to survive in this new market, they're going to have to be as aggressive. I think this (i.e., the Montana deal) is going to spur them on." Maybe yes, and maybe no.

But how can Montana Power offer such a good deal while the local utilities with all their might and muscle can't? We put this question to a savvy power marketer who is in a position to know. His answer: "I don't have a clue how they can pull this off." His guess was that Montana Power may very well lose money on this deal. Perhaps it is a loss-leader, using the marketing industry jargon. Gaining market share in a crowded market is not an easy task. Perhaps PG&E and Edison were smart not to underbid Montana Power's fantastic offer.

Publications

Journal of Energy & Natural Resources Law, (Quarterly Journal). Price: £192. Contact: Order Department, Kluwer Law International, Distribution Centre, PO Box 322, 3300 AH Dordrecht, The Netherlands. Phone: 31-78-654-6454. Fax: 31-78-654-6474.

Economic Policy and Climate Change, Paul Koutstaal (1997). 192 pages. Price: \$80.00. Contact: Katy Wight, Edward Elgar Publishing, Inc., 6 Market Street, Northampton, MA 01060. Phone: 413-584-5551. Fax: 413-584-9933. E-mail: kwight@elgar.com

The Future Energy Utility Company. Price: \$560.00. Contact: FT Energy Asia Pacific, 159 Telok Ayer Street, Singapore 068614. Phone: 65-323-6373. Fax: 65-323-5262. E-mail: ftenergy@pearson-pro.com.sg

1998 World LNG Directory. Contact: Zeus Development Corporation, 2424 Wilcrest, Suite 240, Houston, TX 77042.

Phone: 713-952-9500, ext. 706. Fax: 713-952-9526. E-mail: wcasso@lngexpress.com

The Climate Change Treaty: How is Kyoto Changing the Legislative Debate in 1998? Price: \$29.00. Contact: EESI Publishing, 122 C Street, NW, #700, Washington, DC 20001. Phone: 202-628-6500. Fax: 202-628-1825.

History and Overview of Solar Heat Technologies (1997). Price: \$37.50. Contact: MIT Press, 5 Cambridge Center, Cambridge, MA 02142-1493. Phone: 617-356-0343. Fax: 617-625-6660. E-mail: mitpress-orders@mit.edu

Energy Statistics Yearbook (1995). 486pp. Price: \$100.00. Contact: United Nations Publications, Sales and Marketing Section, Room DC2-0853, Dept. D041, New York, NY 10017. Phone: 212-963-8302. Fax: 212-963-3489. E-mail: publications@un.org

Environment & Energy Wrap-up Report: 105th Congress, First Session. Price: \$39.00. Contact: EESI Publishing, 122 C Street, NW, #700, Washington, DC 20001. Phone: 202-628-6500. Fax: 202-628-1825.

Electric Utility Planning and Regulation. Price: \$27.00. Contact: American Council for an Energy-Efficient Economy, 1001 Connecticut Avenue, NW, Suite 801, Washington, DC 20036. Phone: 202-429-0063. Fax: 202-429-0193. E-mail: ace3pubs@ix.netcom.com

Natural Gas Potential in Canada. Price: \$147.50. Contact: Canadian Gas Potential Committee, PO Box 20032, Bow Valley Square, Calgary, Alberta, T2P 4H3, Canada.

Resource and Energy Economics. Price: \$417.00 / NLG 725. Contact: <http://www.elsevier.com/locate/reseneeco> for further details on ordering.

Energy Economics. Price: \$526.00 / NLG 915. Contact: <http://www.elsevier.com/locate/eneco> for further details on ordering.

Calendar

23-24 February 1998, CERI's 1998 North American Natural Gas Conference and Calgary GasExpo '98. Calgary Convention Centre, Calgary, Alberta, Canada. Contact: CERI, Suite 150, 3512-33 Street, NW, Calgary, AB, Canada T2L 2A6. Phone 403-282-1231. Fax: 403-289-2344. E-mail: ceri@ceri.ca

4-6 March 1998, Centre for Global Energy Studies, Second Latin American Energy Conference. Inter-Continental Hotel, Miami, Florida, USA. Gas, Power and Regulation in Latin America from State monopoly to private investment. Contact: Phone: 44-171-704-6161. Fax: 44-171-704-8440

5 March, 1998, World Energy Efficiency Day. Austria. Contact: O.O. Energiesparverband, Landstrasse 45, A-4020 Linz, Austria. Phone: 43-732-6584-4380. Fax: 43-732-6584-4383. E-mail: esvl@esv.or.at

11-12 March, 1998, The South American Natural Gas Summit. Hotel Inter-Continental, Rio de Janeiro. Contact: Alex Daniel, The Conference Desk, First Conferences, 5th Floor, 85 Clerkenwell Road, London EC1R 5AR, England. Phone: 44-171-404-7722. Fax: 44-171-404-7733. E-mail: confdesk@firstconf.com

15-17 March, 1998, Middle East Petroleum & Gas Conference. Le Meridien Dubai. Contact: Conference Connection Inc., PO Box 1736, Singapore 911758. Phone: 65-356-0960. Fax: 65-356-0962. E-mail: cconnect@pacific.net.sg

17-18 March, 1998, European Gas '98. Conrad International, Brussels. Contact: Flame Conference Administrator, ICBI, 8th Floor, 29 Bressenden Place, London SW1E 5DR, UK. Phone: 44-171-915-5103.

18-19 March, 1999, Middle East Jetfuels Conference. Le Meridien Dubai. Contact: Conference Connection Inc., PO Box 1736, Singapore 911758. Phone: 65-356-0960. Fax: 65-356-0962. E-mail: cconnect@pacific.net.sg

19-20 March, 1998, Successfully Developing Private Energy in Brazil. Wyndham Miami Biscayne Bay, Miami, Florida. Contact: Center for Business Intelligence, 500 West Cummings Park, Ste. 5100, Woburn, MA 01801. Phone: 781-929-2438. Fax: 781-939-2490. E-mail: registrar@cbinet.com

14-17 April 1998, 4th Annual North American Power Market Conference & Trade Fair & 7th Annual North American Natural Gas Market Conference & Trade Fair. Toronto, Canada. Contact: Enerdata, Ltd., Suite 304, 100 Allstate Pkwy., Markham, Ontario L3R 6H3, Canada. Phone: 905-470-0117. Fax: 905-479-2515.

19-22 April 1998, After Kyoto: Implications for Energy Demand and Policy Choice and Central Asian Economic Outlook: Priorities and Opportunities. Boulder, Colorado. Contact: Dr. Dorothea H. El Mallakh, Director, International Research Center for Energy & Economic Development, 909 14th Street, Suite 201, Boulder, CO 80302. Phone: 303-492-7667. Fax: 303-442-5042.

24-24 April 1998, Third Annual Gas & Electricity Trading Summit. Doubletree Hotel, Houston, Texas. Contact: Global Change Associates. Phone: 914-949-6798. Fax: 914-948-5301. E-mail: 76111.424@compuserve.com

27-28 April 1998, Centre for Global Energy Studies, CGES Eighth Annual Conference. Inter-Continental Hotel, London, England. Oil and Gas Investment in Asia: The Engine of Growth. Contact: Phone: 44-171-704-6161. Fax: 44-171-704-8440

29-30 April 1998, 1998 Utility Strategic Marketing Conference. Orlando, Florida, USA. Contact: June Appel. Phone: 610-667-2160. Fax: 610-353-8897. E-mail: appelj@earthlink.com

13-16 May 1998, 21st IAEE International Conference. Quebec City, Canada. Contact: IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-5365. Fax: 216-464-2737. E-Mail: iaee@iaee.org URL: www.iaee.org

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Conference Proceedings

19th IAEE International Conference Budapest, Hungary, May 27-30, 1996

The Proceedings from the 19th International Conference of the IAEE held in Budapest, Hungary, are now available from IAEE Headquarters. Entitled *Global Energy Transitions, with Emphasis on the Last Five Years of the Century*, the proceedings are available to members for \$55.95 and to non-members for \$75.95 (includes postage). Payment must be made in U.S. dollars with checks drawn on U.S. banks. To order copies, please complete the form below and mail together with your check to: Order Department, IAEE Headquarters, 28790 Chagrin Blvd., Suite 350 Cleveland, OH 44122, USA

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Calendar (continued from page 27)

18-19 May 1998, Energy '98: Future Look: The Energy Map of Latin America 1998-2005. La Jolla, CA. Contact: Institute of the Americas, 10111 North Torrey Pines Rd., La Jolla, CA 92037. Phone: 619-453-5560. Fax: 619-453-2165.

8-11 June 1998, PQA '98 North America: Power Quality in a Competitive Advantage. Phoenix, AZ. Contact: Megan Boyd, EPRI, 3412 Hillview Avenue, Palo Alto, CA 94304. Phone: 650-855-7979. Fax: 650-855-2166. E-mail: mboyd@epri.com

8-11 June 1998, 9th Global Warming International Conference & Expo. Hong Kong University of Science & Technology. Contact: Dr. Sinyan Shen, Chair, International Program Committee, Global Warming International Center, PO Box 5275, Woodridge, IL 60517-0275. Phone: 630-910-1551. Fax: 630-910-1561.

14-18 June 1998, National Energy Conference CNE'98: Energy for Tomorrow - Reconciliation of Efficiency and Competitiveness with the Sustainable Development. Neptun, Romania. Contact: Mrs. Ella Ratu, CNE'98 General Secretariat, 8 Energeticienilor Blvd., 79619 Bucharest 3, Romania. Phone: 401-321-4465. Fax: 401-321-1010. E-mail: srai@mail.gsci.vsat.ro

17-19 June 1998, EPRI's 1998 Innovative Approaches to Electricity Pricing Conference: Pricing in the Competitive Business Environment. Washington, DC, USA. Contact: Ms. Lori Adams, EPRI, 3412 Hillview Avenue, Palo Alto, CA 94304-1395. Phone: 415-855-8763. Fax: 415-855-2041.

9-10 September 1998, Energy Markets: What's New? Berlin, Germany. Contact: Georg Erdmann, Conference Chairman, Technical University TA8, D-10587 Berlin, Germany. Fax: 49-30-314-269-08.

13-18 September 1998, 17th Congress of the World Energy Council. Houston, Texas. Contact: United States Energy Association, 1620 Eye Street, N.W., Suite 1000, Washington, DC 20006. Phone: 202-331-0415. Fax: 202-331-0418. (<http://www.wec98congress.org>)

4-8 October 1998, BioEnergy '98 Conference: Expanding Bioenergy Partnerships. Madison, Wisconsin, USA. Contact: Fred Kuzel, Council of Great Lakes Governors, 35 E. Wacker Dr., Ste. 1850, Chicago, IL 60601. Phone: 312-407-0177. E-mail: fkuzel@cglg.org

18-21 October 1998, USAEE/IAEE 19th North American Conference. "Technology's Critical Role in Energy & Environmental Markets." Albuquerque, New Mexico, USA. Contact: USAEE/IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-2785. Fax: 216-464-2768. E-Mail: iaee@iaee.org URL: www.iaee.org

19 October 1998, SNS Energy Day 1998: Taxation of Energy in an Increasingly Interdependent World. Stockholm, Sweden. Contact: Susanne Rothschild-Lundin, SNS Energy, PO Box 5629, 114 86 Stockholm Sweden. Phone: 46-8-453-99-50. Fax: 46-8-20-50-41.

27-29 October 1998, Power Mart 1998: Conference & Exhibition. Houston Astrohalla, Houston, TX. Contact: Pasha Publications, 13111 Northwest Fwy., Ste. 520, Houston, TX 77040. Fax: 713-460-9150.

9-11 November 1998, PQA '98 Southern Hemisphere: Power Quality in a Competitive Environment. Cape Town, South Africa. Contact: Marsha Grossman, EPRI, 3412 Hillview Avenue, Palo Alto, CA 94304. Phone: 650-855-2899. Fax: 650-855-8576. E-mail: mgrossma@epri.com

19-21 November 1998, 7th International Energy Conference and Exhibition - ENERGEX '98, Manama, Bahrain. Contact: Dr. W.E. Alnaser, Conference Secretariat, Dean, Scientific Research, University of Bahrain, PO Box 32038, Bahrain. Phone: 973-688381. Fax: 973-688396. E-mail: EA607@isa.cc.uob.bh

9-12 June 1999, 22nd IAEE International Conference. Rome, Italy. Contact: IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-5365. Fax: 216-464-2737. E-Mail: iaee@iaee.org URL: www.iaee.org

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