

Electric Power Daily

Tuesday, August 1, 2006

Exelon's Rowe wants merger deal in 'next week or so'

Exelon CEO John Rowe, signaling his company's impatience in completing a proposed merger with Public Service Enterprise Group, essentially threw down an ultimatum Monday: a "preliminary agreement" must be wrapped up in a week or so, or the deal may be off.

Rowe, chairman, president and CEO of the Chicago-based parent company of Commonwealth Edison and PECO Energy, made his comments during a conference call with analysts to discuss Exelon's second-quarter results. Exelon's earnings increased 25% in the three months ended June 30.

Rowe said Newark, New Jersey-based PSEG last week made a comprehensive settlement offer to New Jersey parties that would, along other things, freeze retail electricity rates, resolve a pending natural gas rate case by accepting a "modest" increase, and provide \$600 million through December 2008 for "target" customer and state benefits, including rate reduction, economic development, conservation,

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California, UK to develop plan to reduce greenhouse gases

California Governor Arnold Schwarzenegger and UK Prime Minister Tony Blair signed an agreement Monday to jointly develop a market-based plan to reduce greenhouse gas emissions.

Britain and California will look at voluntary and mandatory approaches to cutting GHG emissions, including a cap-and-trade scheme, said the leaders. California and the UK to share ideas on technologies to reduce GHG emissions as part of the collaborative effort.

"The steps we take to approach climate change will undoubtedly be a catalyst for the rest of the nation and a world model. The actions we take today will impact the climate inherited by future generations around the world. This is not a California-only problem, but as a global leader on environmental solutions- we will set the pace for action," said Linda Adams, secretary of the California Environmental Protection Agency.

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New York City Council slams Con Ed on extended outage

New York City Council members attacked Consolidated Edison and grilled its CEO on Monday over the recent power outage that lasted nine days for some customers. One councilman suggested that Con Ed executives responsible for the blackout should resign or even face prison, while the company should be placed under a federal monitor.

The outage began during extreme heat on July 17 and cut power to 25,000 customer accounts, representing 100,000 to 200,000 people in northwestern Queens Borough, according to estimates from local politicians. Most customers were restored by July 24, but some were without power for two more days. Now, Con Ed is serving the area partly through temporary lines and 38 on-site generators, which it will leave in place during the current heat wave to ease pressure on the distribution system.

On Monday Con Ed CEO Kevin Burke appeared at an oversight hearing of the

Demand

Record demand expected today by ISOs in Northeast, Midwest

Grid operators in the Midwest and Northeast were able to successfully meet demand Monday, when scorching temperatures tested the nation's electricity grids once again.

Today will be another, perhaps tougher, test.

In the PJM Interconnection Monday, peak load climbed to 137,762 MW at 3:15 pm EDT, surpassing earlier forecasts by 88 MW that called for peak load at 137,674 MW but falling short of the record 139,746 MW set July 17. High temperatures were in the 90s across the region Monday, but humidity pushed the heat index above 100 in many areas.

Peak loads today were projected to soar to around 144,000 MW, breezing past the previous record of 139,746 MW set July 17. High temperatures were forecast from the mid-90s to low 100s throughout the footprint.

The National Weather Service had issued excessive heat warning for many areas in the footprint that was to remain in effect through Wednesday. The warning is called when the

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National energy efficiency drive kicked off at NARUC conference

The National Association of Regulatory Utility Commissioners has unveiled a National Action Plan for Energy Efficiency to spread best practices for efficiency — including best regulatory policies.

The action plan was given an endorsement-heavy kickoff Monday at the NARUC summer meetings in San Francisco. Because energy efficiency is a well-established subject already involving a great many existing state, federal, local government and corporate programs, the program launch was accompanied by announcements of dozens of efficiency policy commitments from state agencies, companies and other organizations — an effort to demonstrate that something beyond good intentions was being discussed.

NARUC President Diane Munns, a commissioner on the Iowa Utilities Board, said the program announcement is only the start of a great amount of work on gathering and dis

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council's Committee on Consumer Affairs. He said 10 of the 22 primary transmission feeders serving the area failed. The system in that part of Queens runs underground, as does most of Con Ed's lines in the New York City portion of its service territory.

Burke said an underground network system is less susceptible to disruptions than an overhead radial system, but when problems occur, they can be more difficult to locate and repair. Con Ed has still not determined why the cables failed, though it is scheduled to provide a preliminary report to Mayor Michael Bloomberg on Wednesday.

During the session, committee Chairman Leroy Comrie questioned whether Con Ed has upgraded its system to meet growing demand. Council Speaker Christine Quinn added that the city does not have "a 21st Century power system."

Some council members were more belligerent. Peter Vallone, who represents part of the affected area, stated, "This was either gross incompetence, meaning somebody should resign, or criminal negligence, meaning somebody should go to jail." The councilman reiterated his call from last week that Con Ed should be placed under a federal monitor. He is working with federal lawmakers, including Senator Hillary Clinton, to bring that about.

Vallone confronted Burke on why it took Con Ed several days to report the extent of the outage. Facilities such as senior centers were never notified of the problem, and as late as Thursday, July 20, Con Ed was still reporting that only 2,000 customers were without power, he pointed out.

Burke responded that with a network system, a utility cannot trace the exact number of outages, so it relied heavily on customers calling to estimate the size of the outage. Councilman Eric Gioia, who represents part of northwestern Queens, called that "an exercise in absurdity" because Con Ed's service center was so overloaded that many customers could not reach the company at all.

The CEO added that Con Ed sent out survey teams, but Vallone called that "the Paul Revere system" to estimating outages, sending people to ride around the area, signaling "one if by land, two if by sea." Burke acknowledged the need to improve its communications.

Vallone also condemned Con Ed's "pathetic" offer to reimburse customers for up to \$350 of food spoilage, while the company "arrogantly" refuses to compensate customers for lost business and income. Burke replied that businesses that sustained significant losses should contact the utility for possible consideration.

Several council members referred to a sustained blackout that affected the Washington Heights section of New York City in 1999. Vallone commented that "all of the same things were said" about that blackout, but Con Ed has failed to improve its system. Councilman Dan Garodnick noted that a 1999 report from the state attorney general warned of problems "endemic" to the Con Ed system. He also asked why the company could not better monitor its underground system.

The Committee on Consumer Affairs will hold more oversight hearings, including one on Aug. 17, said Comrie. Separately, the New York Public Service Commission is investigating the outage, and has scheduled hearings in the affected area.

FERC says economic dispatch is generally fine

The Federal Energy Regulatory Commission told Congress in a report Monday that its federal/state joint boards on economic power dispatch do not believe there should be any congressional action on the issue. Instead, the boards have only made a few suggestions on how FERC can help improve economic dispatch in various regions of the US.

"None of the joint boards recommends fundamental changes in the way security constrained economic dispatch is

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conducted in their respective regions," FERC told Congress in a report called: "Security Constrained Economic Dispatch: Definition, Practices, Issues and Recommendations."

Instead, there are some recommendations for FERC and joint board proposals calling for some form of action "directed to existing entities within the region, such as [regional transmission organizations], other regional groups or state commissions," FERC said.

In the Energy Policy Act of 2005 Congress directed FERC to establish FERC-state joint boards. The commission was instructed to report back to Congress by early August with recommendations from the joint boards.

The four boards, comprised of state representatives and one FERC commissioner, explored how certain dispatchers — federal power agencies, independent system operators, regional transmission organizations and investor-owned utilities — conduct economic dispatch and use generating units to produce power at the lowest cost to meet demand reliably.

In the PJM Interconnection and Midwest Independent Transmission System Operator region and in the Northeast, which uses centralized dispatch, the boards did not propose changing the basic dispatch or pricing mechanisms, the report said. In the South and West where individual utility dispatch is used, boards did not recommend moving to a more centralized system.

In regions where there are regional transmission organizations with centralized dispatch, there are, however, recommendations in the report for specific discrete changes but no "broad" changes.

In RTO regions with individual utility dispatch, "the boards were open to voluntary changes to aspects of the existing dispatch, or continued industry pursuit of regional dispatch on a voluntary basis," the report said.

However, the Northeast joint board recommends that the New York Independent System Operator and ISO-New England to "work together to resolve trading seams issues and file a plan and timeline" with FERC.

Three protest FERC's Enron settlement

Three parties have asked the Federal Energy Regulatory Commission to reconsider its approval of recent Enron settlements.

The Port of Seattle, Snohomish (Washington) Public Utility District and Ash Grove Cement argue the settlements were prematurely approved.

In their late Friday requests for rehearing of a June 28 FERC order between Enron Power Marketing and commission trial staff, the parties said FERC's action was preferential to settling parties and "unduly discriminatory" to non-settling parties. There were issues of material fact still pending in the proceedings, they argued.

The settlement resolved pending matters stemming from Enron's activities during the 2000-2001 Western energy crisis.

"The commission has widely and loudly proclaimed that market manipulation will not be tolerated. Sadly ... those pronouncements have not been reflected in these proceedings,"

Port of Seattle said. "Yet as bad as all the previous settlements have been, these settlements are the most egregious."

In their joint request, the parties said FERC's "order is arbitrary and capricious, unsupported by substantial evidence and otherwise not in accordance with law."

In its order, FERC used power granted it by the Energy Policy Act of 2005 to find that Snohomish was not obligated to pay a contract termination fee to Enron. FERC denied Enron's termination claim upon a finding that Enron's financial fraud induced Snohomish to enter into the contract.

The commission also approved three other settlements involving contract-termination disputes between Enron and the Valley Electric Association of Nevada, the city of Santa Clara, California, and the Metropolitan Water District of Southern California.

Despite the apparent victory, Snohomish requested rehearing because it believes Enron understated profits and more money should be allocated to parties that lost money during the Western energy crisis.

"Under the three settlements, Enron will actually collect far more than it is disgorging," the parties filing jointly said. "Snohomish respectfully submits that the commission erroneously assumed there were no disputes of material fact which, under the commission's regulations, would require the commission to act on the settlement differently," the parties said. "The order draws this conclusion without acknowledging, let alone addressing, the disputes of material fact raised by Snohomish regarding the settlement amount."

The port of Seattle argues that the settlement violates "the letter, spirit, and intent" of FERC's September 24, 2003, order which was intended to allow "all parties in the gaming and partnership proceedings to have a fair opportunity" to present their claims to the proceeds resulting from the proceedings.

Further, the port argues that FERC, in approving the June 28 settlement, violates Rule 602 of FERC's own procedural rules, which do not allow contested settlements to be approved if there are "material issues of fact in dispute and if there is an inadequate record upon which to resolve such disputes," Port of Seattle said.

The port believes that current disputes still exist in the proceeding. They include whether Enron's gaming practices and partnerships harmed consumers, the actual amount of Enron's profits, the regional allocation of Enron's profits, and whether the settlement amount and allocation complies with the Federal Power Act, Port of Seattle said.

Maine to equate demand reduction with supply

The Maine Public Utilities Commission seeks comment by August 16 on a pilot program that will put demand-side resources on equal footing with supply in an upcoming standard offer solicitation.

Maine follows two other New England states, Connecticut and Rhode Island, in allowing demand reduction to compete directly with supply by offering a comparable type of payment for the resources. Talks are also underway in Massachusetts about a similar program.

The programs would be a huge boon to efficiency because

for the first time demand-side management could compete within New England's \$12 billion supply market. In the past, DSM was treated as a social program, receiving only about \$250 million in benefit payments throughout the region, according to Dan Sosland, executive director of Environment Northeast, an organization pushing the new programs.

"What the Maine PUC is doing is a very, very important first step in what I think is a clear emerging trend in the region," he said in an interview Monday.

The PUC intends to launch the pilot this fall when it seeks standard-offer contracts for residential and small commercial load. The contracts will run for three years and supply one-third of the load. If the pilot is successful, the commission will include demand reduction in solicitations planned for 2008 and 2009. Those solicitations will seek resources for the other two-thirds of the residential and small commercial load.

The commission has yet to work out details of the pilot, and wants stakeholder opinion on a model to pursue.

One approach would be a portfolio standard, which would require that a certain percent of load be served through efficiency, much the way a renewable portfolio standard requires a percentage of supply come from green energy sources. Another approach would be to set no particular limit, but let the market determine the best mix of supply and demand-side resources, the PUC said in its filing (Docket No. 2006-411).

In nearby Connecticut, demand-side resources are competing against supply on more than one front. The state has set a portfolio standard that requires a percentage of retail supply come from energy efficiency or combined heat and power. If the utilities or suppliers fail to meet the standard, they must pay a penalty.

In addition, Connecticut plans to allow efficiency resources to compete against supply resources in a request for proposals the state will issue in September. The goal of the RFP is to find resources that can reduce the state's high congestion costs.

Neighboring Rhode Island recently passed legislation that requires Narragansett Electric, the state's only major investor-owned utility, to procure as much cost-effective efficiency as possible before it seeks power to serve its standard offer load.

In addition to the state action, ISO New England will bring energy efficiency into the wholesale market by allowing it to compete in upcoming forward capacity auctions. The auctions are an attempt to increase resources and ward off a predicted capacity shortfall in the region.

The Maine PUC is pursuing the pilot as a result of legislation signed into law in June that gives it the authority to incorporate demand-side resources into standard offer.

Louisiana PSC backs FERC probe of Entergy

The Louisiana Public Service Commission Monday said it supports an investigation into whether Entergy has failed to make economic upgrades to its transmission system and also supports an investigation into Entergy's wholesale energy purchasing practices.

The Arkansas Public Service Commission in June asked the Federal Energy Regulatory Commission to investigate Entergy's

practices after it ruled that the production costs among Entergy's operating companies must be equalized. The Entergy operating companies pool resources under a system agreement.

Economic upgrades to its constrained transmission system would allow lower cost generation into the Entergy portfolio. "These investigations are supported by Entergy's own transmission studies. They could result in an overall lowering of system production costs," the Louisiana PSC said.

The Louisiana regulators also support the investigation into Entergy's wholesale purchasing practices and policies. "There are approximately 17,000 MW of efficient gas merchant power facilities located in Entergy's control area. Purchases of the capacity and energy from these units in excess of Entergy's current and past levels could result in lower costs," the PSC said. Implementing a weekly procurement process could have saved millions in production costs, the Louisiana PSC said.

However, The Louisiana regulators do not support the Arkansas PSC's request for an investigation into Entergy's continued use of its old, inefficient power plants or its failure to build a coal plant in Louisiana. "The APSC simply has not provided a sufficient basis to justify an investigation or hearing on these claims," the Louisiana PSC said. However, if FERC agrees to investigate those issues, the Louisiana regulator asked that it also review the effect Entergy Arkansas's decision to leave the system agreement has on the other operating companies. "Entergy Arkansas's withdrawal attempt plainly seeks to avoid [FERC's] decision establishing just and reasonable rates for Entergy," the Louisiana regulators said.

The investigation resulting from the Arkansas complaint should not be used to modify FERC's order that the production costs among the Entergy operating companies must be roughly equal, the Louisiana regulators said. Under that order, production costs must be within an 11% bandwidth of average. As a result of the order, Entergy Arkansas, which has the lowest production costs, must pay Entergy's Louisiana utilities, which have the highest production costs, an undetermined amount to get its costs within the bandwidth.

The Entergy operating companies include Entergy Louisiana, Entergy Gulf States, Entergy New Orleans, Entergy Mississippi and Entergy Arkansas.

Entergy did not respond to a request for comment by press time.

Arkansas PSC seeks interconnection comment

The Arkansas Public Service Commission on Friday asked the utilities it regulates to comment on the commission's plan to develop rules on interconnection and increasing the efficiency of fossil fuel plants.

The interconnection rule would establish a standard by which each electric utility would provide interconnection service to any of its customers with on-site generating facilities if requested. The rule would include agreements and procedures that promote best practices for distributed generation without being discriminatory or preferential.

The commission is also seeking comments on its plan to

require the utilities to develop and implement a 10-year plan to increase the efficiency of their fossil fuel generation.

The federal Energy Policy Act of 2005 asked states to consider adopting additional standards related to interconnection, net metering, fuel diversity, fossil fuel generation efficiency and smart metering. The PSC has begun a rulemaking for developing an energy efficiency program, which will include smart metering.

The commission developed rules related to net metering in 2002, but now wants a review to determine if they should be modified or expanded. The existing rule measures the difference between electricity supplied to a customer by an electric utility and the electricity generated by the customer and fed back to the utility. It includes but is not limited to generation from renewable sources. The capacity is limited to 25 kW for residential customers or 100 kW for commercial or agricultural customers.

Initial comments are due to the commission by October 20.

ComEd to appeal tiny service rate increase

Commonwealth Edison will appeal a "serious blow" dealt by Illinois regulators late last week who cut more than \$300 million out of a \$317 million annual electric delivery service rate hike sought by the Exelon subsidiary.

Though still disappointed with the Illinois Commerce Commission July 26 order, the Chicago-based utility muted its tone somewhat Monday. Following the commission meeting, ComEd suggested it would revisit a proposed three-year phase-in starting in 2007 of higher electric rates expected to result from a September 5 joint reverse power auction with Ameren. The actual numbers involved in the rate order were not computed by the ICC staff and announced by the agency until late July 28.

In response to an analyst's question during a conference call to discuss Exelon's second-quarter earnings, John Rowe, the company's president, chairman and CEO, said company officials were "concerned that ComEd keep its investment-grade credit rating. But, when you get a real disappointment with a regulatory agency, there is a natural temptation to say we'll suspend our rate phase-in plan" and take other actions including "not do environmental good work." Normally, Rowe added, "those temptations are the worst thing you can do."

ComEd President Barry Mitchell acknowledged in an interview that the rate increase — the ICC determined the company should receive only \$8.3 million in new revenue, or a half-percent increase, is so tiny as to not be an increase at all.

The commission order reduced costs in a number of areas including the proposed cost of capital, incentive compensation payments, uncollectible debt, charitable donations and advertising expenses.

The ICC established an 8.01% rate of return; ComEd had proposed 8.94%.

"We feel that we submitted a very strong case with very strong supporting information," Mitchell said, adding ComEd will ask the commission for a rehearing within the 30-day statutory time limit. He hinted the request will not come immediately, though because the utility "obviously wants to do it thoroughly."

If the ICC denies the rehearing, it is likely ComEd will

appeal to the Illinois Appellate Court.

Several ComEd critics cheered the rate order, with Citizens Utility Board executive director David Kolata proclaiming "it's a good day for consumers. There was no need for a massive rate increase, or even any rate increase." Indeed, the ICC staff had recommended a \$30 million rate reduction while the commission's administrative law judge proposed a \$164 million increase, slightly more than half of what ComEd requested.

Fitch Ratings on Monday downgraded Commonwealth Edison's issuer default rating from BBB+ to BBB- (Fitch's lowest investment grade) and senior secured debt from BBB+ to BBB, and kept the outlook negative, citing the rate order.

"Given the level of newly approved electric distribution tariffs, together with the scheduled expiration of the competitive transition charge on December 31 and ComEd's funding requirements, Fitch expects interest protection and leverage measures to decline to levels no longer consistent with previous ratings," added Fitch.

There was at least one silver lining for ComEd in the order: the ICC affirmed the utility will be allowed to recover energy costs it incurs from the upcoming auction. That, said Mitchell, is "hugely important for all the dollars involved . . . but it's a passthrough."

Under the company's proposal, residential customers would have paid about 6% more overall because the delivery charge represents about one-third of the total bill. Energy charges account for two-thirds of the bill. ComEd's rates have not gone up since 1997, when the General Assembly ordered the 20% reduction.

ComEd recently proposed a "rate-stabilization plan" under which residential rates would increase by 8%, 7% and 6%, respectively, over the next three years to cushion the blow from significantly higher rates expected to result from the auction. Under the phase-in plan, ComEd would recover the difference, if rate hikes turned out to be higher than that, in the following three years.

Rowe, in response to another question, said phase-in negotiations are continuing with the ICC staff. He could not predict their outcome. "This is one of those things (that) there will be a result when there is a result, and we can't tell you when."

Investors buy 40.84% stake in US Geothermal

Five institutional investors purchased a 40.84% equity stake in US Geothermal, a renewables company developing three projects totaling 39 MW near Raft River Idaho.

The investors are SPCP Group with 15.99%, Goldman Sachs & Company 8.09%, Winslow Green Growth Funds 5.20%, S.A.C. Capital 5.78% and Wexford Capital 5.78%, US Geothermal said Monday.

"Goldman Sachs has made a number of investments in renewables such as wind, biofuels and now geothermal is our latest," said a spokesman for the investment company that last year bought Texas-based Zilkha Renewable Energy, now called Horizon Wind Energy.

Boise, Idaho, based US Geothermal has contracted to pro-

vide 10 MW to Idaho Power as a qualifying facility under the Public Utility Regulatory Policies Act. Idaho regulators have capped this at 10 MW.

The company will break ground this year on the first unit that would go on line late in 2007 and rank as the Northwest's first geothermal plant, said Daniel Kunz, US Geothermal president and CEO.

But Idaho Power is allowing the company to bid into its solicitation for renewables and if the project is selected, it would no longer be considered a QF plant and could generate 13 MW. The increased output would be done with no additional capital investment and would decrease operating costs, US Geothermal said.

The board of the Oregon-based Eugene Water and Electric Board on July 18 approved a deal to buy the 13 MW output of the second unit, an EWEB spokesman said Monday.

US Geothermal said that there is "strong regional interest" in geothermal power and that it is in discussions with several utilities from California to Washington about purchasing the 13 MW output of the third unit.

The Bonneville Power Administration has agreed to wheel the power. US Geothermal said its project field in Idaho would be large enough to produce 90 MW. Its Idaho site is where the Department of Energy built and operated a geothermal demonstration plant during the early 1980s.

Entergy: RFP winners must pay to improve grid

Winning bidders must pay for transmission upgrades under Entergy's solicitation for intermediate-term products due out in draft form August 31, the company said in a document filed Friday with the Louisiana Public Service Commission.

The intermediate term request for proposals was requested by the Louisiana Public Service Commission as a way to compare responses from the market to the cost of running its old, inefficient units. Independent Power Producers and other, including the Arkansas Public Service Commission, claim that replacing those units would reduce operating costs.

The company must run the old, high heat rate units because of transmission constraints on the Entergy grid.

Entergy said the cost of the transmission upgrades to any product proposed to compete with the old, transmission constrained units would be added to the bids. "Those costs will be part of the delivered cost from that resource and cannot be assumed away," unless Entergy had committed to build the additional transmission before the request for proposals was issued, the company said.

Independent power producers are perplexed by Entergy's position. The upgrades are necessary to relieve the constraints on the grid so the inefficient plants can be replaced. "We're willing to pay a portion of the upgrades," said Michael Sparks, director of government and regulatory affairs for Suez Energy. The IPPs don't want to pay for 100% of the upgrades because Entergy will be left with a rehabilitated grid and access to lower cost transmission, both of which will lower costs to their customers, they said.

Experts have testified that Entergy could save at least \$400 million a year if it replaces at least a portion of the production from

the old units with lower cost power. "You can build a lot of transmission lines at \$1 a mile with \$400 million a year," Sparks said.

Entergy also refuses to design the intermediate-term product for more than five years, which the IPPs said would help offset their cost to make the necessary transmission upgrades to get their power into the constrained region. "It is also worth noting that the companies' proposal to solicit five year products is two years beyond the system's preferred maximum term of three years for limited term products," Entergy said. The company agreed to extend it to five years based on CEO J. Wayne Leonard's promise to the PSC that it would.

PNM cuts deal for power from biomass plant

PNM Resources has agreed to a 20-year power purchase agreement for the output from a proposed 35-MW biomass power plant. If built, the plant would be New Mexico's first electric biomass plant.

Western Water & Power Production would build the plant near Estancia, New Mexico, Marc Christensen, a spokesman for the Albuquerque-based utility, said Monday.

WW&P expects to start construction in early 2007 and bring the roughly \$70 million plant into service in early 2009, said Jack Maddox, WW&P vice president. The plant will be sited next to 20 acres of greenhouses, which will use waste heat from the facility, he said.

The power purchase agreement was the result of months-long negotiations following a request for proposals PNM issued in late 2005. In April, PNM told the New Mexico Public Regulation Commission that it was unable to reach a deal with companies responding to the RFP because their prices were above cost thresholds set in the state's renewable portfolio standards. The PRC directed PNM to continue talks with WW&P and Stirling Energy, a Phoenix-based solar developer, to see if deals could be made.

WW&P's originally offered 6.25 cents/kWh. Under the final deal, PNM will pay WW&P about 5.6 cents/kWh at the start of the contract, with the price rising to 6.2 cents/kWh, Maddox said.

The biomass plant will burn brush and small branches from forest and rangeland thinnings, Maddox said. WW&P has initial financing for the project, but will need to nail down a contract for the plant's fuel before it can complete the financing, he said. WW&P is considering various financing options, including industrial revenue bonds, conventional financing and an equity partnership, he said.

WW&P has several other biomass projects in various stages of development in New Mexico, Maddox said. PNM will be seeking additional renewable resources through RFPs, Christensen said. Currently, PNM is in talks with Stirling Energy about possibly buying the output from a proposed 150-MW solar project, he said.

PNM will file the PPA for PRC approval within 30 days, Christensen said.

New Mexico has an RPS that calls for 5% of investor-owned utility electric sales to come from renewable sources by 2006, a standard that PNM meets. The RPS rises by 1% a year to 10% in 2011.

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and low income assistance programs. In addition, PSEG said it would increase its charitable giving 20% over 2005 levels and maintain its capital program.

"I'm painfully aware that this offer is more than we expected to make and more than you expected us to make," Rowe said. Despite all that, Rowe said he "remains convinced" the merger will represent a positive move for Exelon's shareholders "and will be accretive in the early years, although the first one may be a close call."

But it has to get done first. And time is of the essence. "We must reach a preliminary agreement in the next week or so if we are to continue this effort ... that is why we have made a big offer and that is as far as we can go," Rowe said.

"This has been a long transaction and a painful negotiation in New Jersey and with the Justice Department," he said. Once final merger terms have been determined, the boards of directors of both Exelon and PSEG will review the packages. A final decision by Exelon's board will be "hard boiled," he added.

Rowe said that the New Jersey parties "appear to be willing to negotiate within our timeframe" and said the company has had "very sober" talks with the stakeholders. "We have to be wanted here to be here," Rowe said the company has told New Jersey parties. "We know we can't badger our way in; we know we can't bluff our way in."

The companies have been embroiled in the merger-approval process for approximately 20 months. "There are so many parties in New Jersey discussions that I and my board have to say this discussion was reaching the point where the fruit starts to rot on the tree, he said.

Last week, Exelon and PSEG spared with merger opponents over an analysis by the PJM Interconnection's Market Monitoring Unit on the market power impacts of the merger.

Opponents said it proved their case against the combination by showing the resulting Exelon Electric & Gas would possess market power. In response, the companies argue the analysis is incomplete and does not consider the full capacity divestiture that they plan.

Earnings rise on wholesale margins

The tone was decidedly more upbeat on the earnings front, with Exelon reporting a quarterly profit of \$644 million, or 95 cents/share, up from \$514 million, or 75 cents/share, in the year-ago quarter. Revenue rose to \$3.7 billion from \$3.48 billion in the second quarter of 2005.

Exelon reaffirmed its earnings forecast of \$3 to \$3.30/share for all of 2006.

John Young, Exelon executive vice president and CFO, said key positive drivers during the quarter were "higher realized wholesale margins at generation, increased weather-normalized deliveries at ComEd and increased revenues at PECO" due to previously authorized rate increases.

They were partially offset by higher operating costs related to stock-based compensation and inflation and lower sales volumes at delivery companies as a result of unfavorable weather.

The solid performance "has put us back on track for the year ... we recorded a relatively weak first quarter," observed Rowe. "Our operating performance, when coupled with current wholesale prices, gives us renewed confidence in our operating earnings outlook."

Rowe said Exelon plans to "sharpen" earnings guidance once third-quarter results are in.

California, UK tackle GHG ... from page 1

Adams, Tamminen and other officials acknowledged, though, that they did not inform the White House that Schwarzenegger would be signing an agreement with Blair on global warming. "We did not share any drafts or anything with the federal government," Adams said.

Schwarzenegger spokesman Adam Mendelsohn dismissed suggestions that the agreement could run afoul of the Constitutional prohibition against states negotiating treaties with foreign governments. "It's not a treaty," Mendelsohn said. "It's an agreement to share ideas." A White House spokeswoman declined to comment on that issue.

Terry Tamminen, special advisor to the governor on energy and the environment, said the hope is that the federal government will get involved.

Schwarzenegger and Blair unveiled their agreement in Long Beach in Southern California, following a meeting with business leaders to discuss what companies can do to reduce GHG emissions. CEOs from Edison International and British Petroleum were among those scheduled to attend.

Schwarzenegger has called on California to reduce GHG emissions to 1990 levels by 2020. Last year California was the 12 largest sources of GHG emissions in the world.

Some businesses maintain that the governor's aggressive climate change goals will drive up energy costs and make it too expensive to do business in the state.

But Tamminen said Monday that those who believe that climate change efforts will hurt the economy are "simply wrong." Reducing GHG emissions can help the environment and help business, he said.

California's pact with the UK comes as Schwarzenegger has proposed a centralized body to oversee implementation of a bill that would cap GHG emissions. Some environmental groups have expressed concerns that the governor is aiming to scale back the bill, AB 32, through this panel.

The bill, which is working its way through the Legislature, would institute an "enforceable cap" on GHG emissions from large emitting sources including electric utilities. California Assembly Speaker Fabian Nunez and Assemblywoman Fran Pavley authored AB 32.

Environment California praised the agreement between Blair and Schwarzenegger but said passage of AB 32 needs to be a top priority.

"At the end of the day, California first and foremost needs to establish a law requiring the state's biggest polluters to cut their global warming pollution by 25% by 2020 in a way that is

mandatory, verifiable and enforceable," said Bernadette e Del Chairo, of Environment California.

"Without that, promises to do something about global warming are nothing more than a lot of hot air," she said.

The agreement could see a link up between the EU Emissions Trading Scheme and a future emissions trading scheme in California, a UK government spokesman said Monday.

"California is one of the biggest economies in the world, and [Mr. Blair] thought it was important to go there and look at the opportunities," the Blair spokesman told Platts Monday.

"Their economy is developing in a lot of the same ways that ours is, in terms of [biotechnology] and innovation being the things we think are going to drive our economy," the Blair spokesman said.

Although current US federal policies on energy differ from those in the UK, policies in California are "quite in tune with ours," he said, pointing to long-term emissions reduction goals, renewable fuels, and possible emissions trading.

"It would be a major step to link an economy in Europe and an economy in the [US]," he said, although cautioned that such a move would not happen "any time soon."

Record demand expected today ... from page 1
combination of high temperatures and humidity are expected to result in heat indices exceeding 105 degrees for at least three hours.

PJM late Monday called for public conservation of electricity throughout the 13-state territory, as well as the District of Columbia, especially between the hours of 3 and 7 pm EDT today. PJM spokesman Ray Dotter said the operator expects to meet demand with no problems, but the call for conservation provides some extra cushion to ensure adequate power supplies.

Several companies within PJM's footprint issued calls for electricity conservation on Monday as well, including Dominion Resources and Baltimore Gas & Electric.

PJM implemented other procedures for member companies to help cope with the demand. The grid operator Monday morning called a "maximum emergency generation alert," providing generation owners an early warning that system conditions may require generation to be loaded above the normal economic limit.

Also on Monday, a "heavy load voltage schedule" was issued by PJM to generation and transmission owners requesting them to make any necessary adjustments to equipment at substations so they will be able to provide adequate support for high voltage levels.

Last Friday, the operator issued a hot weather alert for the region for the day and evening hours Monday and Tuesday, which prepared personnel and facilities for extreme hot and/or humid weather conditions which may cause capacity requirements/unit unavailability to be substantially higher than forecast and are expected to persist for an extended period.

In New York, the ISO projected ample supply but alerted

participants in its voluntary Demand Response Program that they might be asked to reduce electricity use because of high demand, which was projected at 33,700 MW for today and 33,830 MW for Wednesday.

Record load stands at 32,624 MW, set July 27. Program participants are offered price incentives to cut electricity use. High temperatures were forecast near 100 in New York City today and Wednesday, 15 degrees above normal.

The New England ISO also projected sufficient supply with loads at near-record levels on Tuesday and Wednesday. Highs were forecast near 100 in Boston, more than 16 degrees above normal. Loads were projected at 27,180 MW for today and 27,700 MW for Wednesday. The record of 27,395 MW was set July 18.

In the Midwest, load reached close to 116,000 MW Monday, and the grid operator met the high demand successfully. The grid operator had requested all market participants to review their offers and make all generation assets available as temperatures throughout the region as high temperatures were forecast to reach the 90s across the region. The added humidity was expected to boost temperatures into the low 100s.

The Midwest Independent Transmission System Operator's request included making emergency-only generation available for economic dispatch where possible and canceling all nonessential generation maintenance. Although the grid operator expected to have adequate electricity available in the market to meet load and manage constraints, forced outages could have required the use of operating reserves.

MISO also declared an Energy Emergency Alert-1 (EEA-1) for the entire footprint. The alert commits all the resources in the area and curtails nonfirm wholesale energy sales. The operator also issued a "maximum generation warning" for the region, providing generation owners an early warning that system conditions may require generation to be loaded above the normal economic limit.

Today's forecasts call for highs again the 90s, with heat indexes over 100.

Efficiency drive kicks off ... from page 1
seminating information on best practices and following up to see that the commitments are more than rhetoric. Involvement of the Department of Energy and the Environmental Protection Agency will help in that process, according to officials representing those federal agencies.

"We will be calling people in the future to ask them what's been done," Munns said.

She added that the recent weeks of record-setting demand for electrical power make this the right time to capture that interest of regulators for a program to restrain demand.

Regulators, utilities and others are being asked to commit to long-term policies of energy efficiency, but the program does not appear to be intended as a measurement and tracking system that could cause political embarrassment. "The fear people have is that there are goals that won't be met," acknowledged Jim Rogers, president and CEO of Duke Energy and co-chair

with Munns of the group that pulled together the action plan.

The most consequential part of the program may come from the influence that progressive and successful state regulators may exert on regulators of other states. Regulators can provide the accounts of the utility rate structures, financial incentives, tougher building standards, public education and other mechanisms that have worked.

The importance of the regulators in facilitating efficiency programs was stressed by Rogers and others. Tom Kuhn, president of utility trade group Edison Electric Institute, released a statement describing the state regulatory role as critical. "EEI and its members look forward to working with state regulators to help create new regulatory and business models for energy efficiency, demand response and advanced consumer products," he said.

Munns is likely to take a leading role in a committee that will pursue the subject, according to James Kerr, a North Carolina utility commissioner and first vice president of NARUC.

The American Gas Association said it is supporting the efficiency plan because it holds the promise to defer the need to build 40 500-MW power plants, avoid greenhouse gas emissions equivalent to about 35 million vehicles, lower the costs of air pollution controls and reduce prices for natural gas. The plan

also could result in the savings of hundreds of billions of dollars.

Particularly noteworthy, said AGA, is the plan's recommendation to align utility incentives with the delivery of cost-effective energy-efficiency programs. The plan encourages states to modify utility ratemaking practices to promote investments in energy-efficiency technologies.

"As the largest consumer of energy in the world, the United States has a responsibility to address this issue now. A collaborative commitment to advance energy efficiency and conservation as a 'fifth fuel' to complement coal, nuclear, natural gas and renewable energy can help deliver real economic and environmental benefits to consumers and utilities alike," said Rogers. "With the energy challenges facing our nation, we need to get to work knocking down barriers to meaningful energy savings."

In concert with the plan's rollout, Duke said it would renew its commitment to advance energy efficiency and conservation programs in the five states in which the company's US utilities operate — Indiana, Kentucky, North Carolina, Ohio and South Carolina.

Through a series of state workshops beginning in the fall, Duke will reach out to various stakeholders to explore innovative efficiency and conservation programs that ensure sustainable investment in energy efficiency.

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