



# POWERMATTERS

<http://www.abag.ca.gov/services/power>

## Power Matters '98 Conference Spotlights Deregulated Electric Industry

### Guest Speakers Share Their Insights on California's Power Marketplace

Last November, ABAG — one of the largest power aggregators in California — co-sponsored **Power Matters '98**, a two-day conference on topics related to electric utility restructuring.

The keynote address was delivered by Richard A. Bilas, president of the **California Public Utilities Commission (CPUC)**. The CPUC has broad power to regulate safety, standards of service and rates for natural gas, electricity, pipelines and transport companies in California. Bilas gave his assessment of the development of competition in California. He expects increased competition in the electric industry after the utilities recover their stranded asset costs through surcharges to customers. When this recovery period expires in March 2002, Bilas believes that innovations will spur competition, increasing the opportunities for more power suppliers to enter the California power marketplace. As the industry shifts from government regulations to market conditions, consumers — as well as ABAG POWER pool members — should benefit from more energy suppliers and lower energy costs.

Jeffrey D. Tranen, CEO of the **California Independent System Operator (ISO)**, discussed the operations of the ISO, which manages the state's electric power distribution system. Its mission is to foster competition, provide consumer choice and offer safe and reliable electric service. Tranen noted that reliability of transmission has been maintained, the marketplace has responded more quickly to restructuring than anticipated, and policy discussions have expedited the decision-making process. The ISO will focus on improving timely information flows and providing incentives to join the ISO, thereby creating more capacity and reliability.

George Sladoje, CEO of the **California Power Exchange Corporation (PX)**, discussed the benefits of the electronic auction process. The PX establishes a



Plenary session speakers: Richard A. Bilas, President of the CPUC (left) and Jeffrey D. Tranen, CEO of the ISO (right).

market-clearing price of electricity and a competitive, open and credible marketplace that facilitates trading among utilities, power marketers, load aggregators, large industrial customers and cogenerators. Sladoje noted that the PX performs a market monitoring function to assure fair trading, minimizes the risk of non-delivery for buyers through its liquidity, and diminishes risk of nonpayment for sellers through its credit management and widespread participation.

Other guest speakers included Richard P. O'Neill, Director of Policy Analysis at the **Federal Energy Regulatory Commission (FERC)** and William J. Keese, Chairman of the **California Energy Commission (CEC)**. Both speakers discussed the state of the utility marketplace. According to O'Neill, regional ISOs and ancillary markets will play an important role in reducing entry barriers, transaction costs, unnecessary risks and artificial congestion. Keese reiterated the sentiment that increased competition, and thus lower energy prices, will further develop after the transition cost recovery period ends in 2002. In the meantime, energy service providers, such as ABAG POWER, will continue to expand aggregation programs to provide direct access to customers.

## Electric Pool Completes Its First Year Gas Pool Savings Beat PG&E

The ABAG POWER Electric Pool completed its first program year on December 31, 1998. Our first year was quite challenging, especially in light of the three-month postponement of deregulation, meter data transfer problems and meter installation delays. Despite these unforeseen obstacles, the Electric Pool managed to break even, with revenues of approximately \$17 million roughly equal to expenses. In addition, the program's energy costs were in line with PG&E's costs, and less than the Power Exchange's cost. At year end, membership in the Electric Pool includes 59 agencies, representing over 5,800 accounts.

### Electric Pool Implements Lessons Learned

#### Lesson 1: Make Short-Term Energy Purchases —

During the program's first year, the Electric Pool relied on two energy suppliers — PG&E Energy Services and Seattle City Light — and the Power Exchange for its energy purchases on an annual or long-term basis. While the program was quite lucky in securing energy contracts that were comparable to PG&E's costs, we have moved to a more market-driven, flexible strategy. With the assistance of our scheduling coordinator, Northern California Power Agency (NCPA), we will solicit shorter-term proposals and price options for power to take advantage of weather and market conditions. Our portfolio of electric energy suppliers, approved by the ABAG POWER Executive Committee, consists of nine companies (see box above) that will competitively bid for our energy contracts. This system will help us achieve our goal of energy savings for our program members.

**Lesson 2: Simplify the Bill** — Although intended to be straightforward, the original ABAG POWER electric bill generated some confusion for members. A Billing Ad Hoc Committee was formed to address this issue and was given the task of redesigning the bill to be more user-friendly. Based on feedback from committee members, the bill will be structured in three parts: a front page, a summary section and a detailed section. To date, the committee accomplished the first goal of reformatting the front page. The next steps are to

### ABAG POWER's Portfolio of Electric Energy Suppliers

- Arizona Public Service Company
- Enron Capital and Trade Resources
- Illinova Energy Partners
- Morgan Stanley Dean Witter
- PG&E Energy Services
- PowerEx
- Seattle City Light
- Southern Company Energy Marketing
- Williams

redesign the Summary Pages and Detailed Account Pages to include more data per account. This will help all members, who use the data on the bill for different purposes, to effectively account for utility expenses.

### Gas Pool Achieves Moderate Savings

For the 1997-1998 program year, the ABAG POWER Natural Gas Pool experienced a total savings in members' gas bills of just over \$70,000, or 2.1 percent. This compares to a savings of \$150,000, or 7 percent, for the 1996-1997 year. Although the same gas purchasing strategy was used in both years, we experienced different results.

After careful analysis, we discovered five main reasons for the reduced savings.

(1) PG&E changed the model it uses to buy and sell balance gas. Gas, as a commodity, is comprised of contract gas and balance gas. **Contract gas** is gas furnished by the Gas Program's supplier, Enserch, for monthly consumption and storage. **Balance gas** is a daily amount of gas that PG&E requires ABAG POWER to provide for system reliability. Previously, gas balancing was done monthly. However, in November 1997, PG&E moved to daily balancing forecasts, resulting in higher costs for the Gas Program.

(continued on page 3)

## Legislation Review/Preview

### 1997-1998 Bill Summary List

**SB 779 (Calderon):** Enacted the Calderon-Peace-MacBride Judicial Review Act of 1998 to generally expand both public access to the California PUC actions and proceedings and judicial review of PUC decisions. *Chapter 886, Statutes of 1998.*

**SB 1602 (Peace):** Delayed the ability of the PUC to enact any natural gas restructuring decisions affecting core customers prior to January 1, 2000. Required the PUC to report to the Legislature should it find additional restructuring of the natural gas industry to be in the public interest. *Chapter 401, Statutes of 1998.*

**AB 578 (Martinez):** Specified the framework and authorities for the Electricity Oversight Board, an agency created by electrical industry restructuring legislation during the last legislative session. *Chapter 261, Statutes of 1997.*

**AB 1158 (Asm. Utilities & Commerce Committee):** Required the PUC to report on the impact of the transition to competition on the quality of services provided by the utilities. *Failed passage in the State Senate.*

### 1999-2000 Proposed Bills

**SB 33 (Peace):** This bill would require the Governor to designate the president of the PUC from among its members and would require the president to direct the executive director, the attorney, and other staff of the commission in the performance of their duties.

*Existing law requires the members of the PUC to elect the president and requires the commission to appoint an attorney and an executive director.*

**SB 96 (Peace):** This bill would establish the Independent System Operator and the Power Exchange as state agencies and repeal existing law.

*Existing law requires the Oversight Board to take the necessary steps to ensure the earliest possible incorporation of the ISO and the PX as separately incorporated public benefit, nonprofit corporations.*

**SB 177 (Peace):** This bill would prohibit a public utility that offers competitive services from condemning any property for the purpose of competing with other entities in offering those competitive services.

*Existing law authorizes certain public utilities to condemn property.*

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### ABAG POWER (cont.)

(2) El Niño's warmer weather reduced last winter's gas demand, and thus lowered gas prices nationwide. The price of gas bought from our contracts and placed in storage during the previous summer was relatively higher when withdrawn during last winter.

(3) During that warmer winter, our fixed price contract with Enserch was higher than the market index.

(4) To comply with PG&E gas balancing forecasts, the daily gas purchasing forced us to purchase more expensive gas than the previous year.

(5) The CPUC, at PG&E's request, levied a one-time surcharge to all direct access customers, which resulted in a \$43,000 hit to 1997-1998 savings.

Although the Gas Program did not experience the same level of savings this past year, it still provided an

overall savings to its members. ***Our two-year track record averages \$220,000, or 4.5 percent, savings to members and taxpayers, versus PG&E.***

The Gas Pool has revised its strategy to deliver improved performance and better savings in this 1998-1999 year. That strategy includes: monitoring gas management services, which will better manage gas balancing costs; exploring joint RFP for supply with other pools to increase our economy of scale; pursuing new membership; and urging PG&E, together with other gas programs, to improve the daily gas balancing forecast.

We will continually modify purchasing strategies and program management to take advantage of opportunities in both the electric and gas markets to maximize savings for ABAG POWER Pool members.

## Electric Industry Prepares for Y2K

Over the past five years, the electric industry has been identifying, fixing and testing potential Y2K — Year 2000 — computer problems. As the countdown continues, utilities are finalizing their preparedness strategies, rewriting computer codes and replacing software, equipment and computer chips embedded in systems connected to power plants. So far, utilities have spent about \$2 billion and have found few serious problems. Their systems will be tested during a nationwide Y2K simulation in September 1999.

The California Public Utilities Commission has recently evaluated the utilities and agencies that work with ABAG POWER. Here is what the CPUC found:

**PG&E** is targeting all computers, hardware and software, the Customer Information System, all systems with embedded computer chips, such as control panels in power stations, electronic security systems and customer services meters. It has identified all vendors critical to providing reliable service to customers, such as power plant fuel suppliers and telecommunications services, in order to coordinate strategies.

**Independent System Operator (ISO)** has coordinated its Y2K plan with its infrastructure system vendors and external entities with which it deals with daily, such as scheduling coordinators, transmission owners, utility distribution companies, the Western States Coordinating Council, adjacent control areas, generation owners and financial institutions, including the Power Exchange.

**Power Exchange (PX)** has coordinated its Y2K preparedness plans with the ISO and utilities to maintain the reliability of power transmission and distribution.

*For more information, please visit the following websites: PUC Year 2000 Information (<http://www.cpuc.ca.gov>), PG&E Year 2000 Program (<http://www.pge.com/resources/compliance>), ISO Year 2000 Project (<http://oasis.caiso.com/pubinfo/Y2K>) and the PX Year 2000 Project (<http://www.calpx.com>).*

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Michelle Fadelli, Editor. Christine Cleary, Managing Editor/Writer, 510/464-7947. Debbi Nichols, Production.  
ABAG POWER Program Advisor is Dave Finigan, 510/464-7908  
ABAG, P.O. Box 2050, Oakland, CA 94604-2050 v Fax: 510/464-7985

 ASSOCIATION OF BAY AREA GOVERNMENTS  
P.O. Box 2050 • Oakland, CA 94604-2050  
website: <http://www.abag.ca.gov> • email: [info@abag.ca.gov](mailto:info@abag.ca.gov)

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FIRST CLASS  
U.S. POSTAGE  
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Permit No. 832  
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