

MEMORANDUM

TO: TOM FREEDMAN
FROM: RAVEN MONTGOMERY
RE: ELECTRICITY DEREGULATION
DATE: JUNE 23, 1997

The Detroit News June 19, 1997

- The lobbying blitz marks the start of a million-dollar campaign by the utility workers, supported by the AFL-CIO and the United Mine Workers, to build grass-roots opposition to legislation in Congress to deregulate the electric utility industry by 2000.

Chicago Tribune June 3, 1997
Illinois

- The Illinois legislature did not pass a utility deregulation bill in the session that ended Sunday.

Journal of Commerce May 21, 1997
Competition Transition Charges

- These are charges that an electric utility can charge a customer to recoup the value of assets left uneconomic by electricity deregulation. They include the value of power plants and power purchase contract that will be made uncompetitive by market-based rate-making, and provide the cash flows of the deals.
- The stranded asset bonds are expected to be triple-A securities with very little credit-enhancement needed. If the amount of competition charges collected by a particular utility doesn't match projections, the company can raise the rate.

The Atlanta Journal and Constitution May 10, 1997

- Bob Johnston, vice president for engineering, planning and operations at MEAG Power, said consumers could experience power shortages if the industry is fully deregulated and opened to competition because the current "obligation to serve" now expected of utilities probably would not survive an industry restructuring. He said that in addition, utilities may not build power plants and transmission facilities without being assured of an adequate financial return.

The Houston Chronicle May 7, 1997

- The compromise agreement reached in Texas with the help of the governor's office would allow Texans to choose their electricity supplier by Sept. 1, 2001. It would

cut residential rates by 10% over the next three years and freeze rates for large industrial customers until 2001. It would also allow the state's large utilities to recover almost all of their stranded costs. The state would pay the utilities for these costs, with the proceeds from state-backed bonds. If the deal is booked as debt the utilities can amortize the proceeds over 10 years and ratepayers would be spared the tax bits, but if the IRS forces utilities to book proceeds as sales, the tax would have to be paid up front.

Pennsylvania

- A law to open up the state to customer choice was signed late last year. Under their plan, customer choice will begin Jan. 1, 1999 and be phased in over a three-year period. Utilities can regain their stranded costs over a nine-year period through a transition charge added on to customers' bill.

The Economist May 3, 1997

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- Stranded cost are those investments made by utility companies which are expected to become uneconomic when competition is introduced and rates begin to fall. Estimates of stranded costs range from \$10 billion to over \$300 billion. In California, utility companies were recently awarded \$28.5 billion in stranded costs compensations.

Chicago Tribune May 1, 1997

- In Illinois, a number of restructuring plans have been proposed in the General Assembly and several retail wheeling experiments have been approved by the Illinois Commerce Commission.
- Nuclear power plants have improved air quality in our cities and water quality in rural areas by serving as a substitute for coal. They have provided a reliable source of electricity.

The Wall Street Journal March 25, 1997

Economy: Electricity Deregulation Sends a Chill Through Economies Near Some Plants

- The deregulation of electricity markets is delivering some benefits. For example, in some areas homeowners have seen monthly bills cut by 20%, while industrial users have negotiated private deals with utilities that may include even greater savings.

This competition has proved not to be the greatest idea for all:

- For example, in California in San Luis Obispo County estimate that if Pacific Gas & Electric Company is allowed to accelerate the depreciation of its Diablo Canyon nuclear plant, the county will lose as much as \$9.6 million of the \$15 million available annually for discretionary spending. Robert Hendrix, county

administrator, said that if the plant were to close entirely before its planned retirement it would be detrimental.

- In the Midwest, school districts and municipalities in Ohio stand to lose about \$400 million in annual revenue if utility-tax rates are reduced as part of proposed deregulation plans.
- It's unclear how many of the country's roughly 5,600 power plants might close because of competitive pressures. Some analysts estimate that deregulation will cause 20 of the 109 nuclear-power plants in the US to be shut down before their licenses expire.
- Many power plants will change owners because some utilities already have announced plans to get out of the generation business entirely and instead buy power to distribute.

The New York Times March 9, 1997

Green Power Wanes, But Not at the Grass Roots

- California passed a deregulation law that will enable corporations, universities and other big customers to choose their energy providers in 1998. It will also guarantee small customers a rate reduction of 10%.
- Because of the competition many utility companies have been trying to cut costs by merging with other energy companies and expanding overseas. Some utilities are restructuring so they can distribute only electricity.
- With California's deregulation law, it is dedicating a little less than 1% of every electric bill to supporting research as well as programs for green power, the fund is expected to total about \$540 million by 2002.

The New York Times February 1, 1997

Has A State Tried Too Hard To Deregulate?

Peterborough

- Part of New Hampshire's pilot program to open the state's electricity market to full competition in 1998. A forerunner of national deregulation, the Enron Corporation, based in Houston, was determined to get noticed. This company set up an office last April with 30 salespeople, spent \$25,000 to help revitalize the downtown, and promise cheaper electricity. It was able to successfully beat out 30 competitors and gain customers' support.
- The savings that people experienced because of Enron are not a result of free-market competition or any economies of scale that an energy giant like Enron would bring to bear on a regional market. Rather, they stem from state-mandated subsidies and from the willingness of Enron and the other marketers to shave their profit margins to near zero to get a piece of the action.
- While the deregulation of the national market for

electricity will probably bring about lower prices in some parts of the country, the monthly bills of the 17,000 New Hampshire residents taking part in the new pilot program could bounce back if the subsidies are phased out and if Enron and other winners of the marketing battle reward themselves by taking a profit.

- Twenty states are on their way to opening their electrical utilities to competition.
- The pilot program expires on June 30, 1998, by which time the entire state will be deregulated. A pilot program in New Hampshire that allows people to choose their electricity supplier has reduced the electric bill of many participants by an average of 15%. The savings have mostly come from a rebate from the state's utilities and lower than usually prices from companies' trying to entice people to sign them.

The Wall Street Journal January 20, 1997

Business Brief: Two Big Northeast Utilities Units May Seek

Chapter 11 Protection

- New England states are moving faster than many other parts of the country to deregulate electricity prices to reduce the region's high power prices.
- Full pricing competition is to begin in New Hampshire on January 1, 1998. Under a deregulation pilot program limited to a fraction of customers, some power prices have been cut by more than 20%.
- Regulators are suppose to outline a final plan on February 28 that would lower rates 18% or more, depending on market prices.

Consumers' Research

Pg.38

- The Rhode Island legislature is considering an electricity deregulation bill that supporters say would cut consumer rates by at least 14% and could serve as a model for utility competition in other states. The bill has broad bipartisan support.

Congressional Quarterly November 23, 1996

Chances for Quick Action on Deregulation Fading

Pg. 3307

- Rep. Michael Crapo, Republican from Idaho, worries about deregulation and its effects on his Idaho constituents. These people fear that deregulation will raise electricity and irrigation costs in states that have the nation's cheapest power, and hurt endangered fish tended by the hydroelectric operators.

H.R. 3790

- Would have given all states until Dec. 15, 2000 to implement retail competition in the electricity industry. If they failed, the Federal Energy

Regulatory Commission would do it for them. Deregulation proponents, Enron Corp., thought that this bill proposed by Rep. Dan Schaefer, was a workable vehicle for their drive to retail competition.

The International Brotherhood of Electrical Workers

- Asserts that deregulation proposals would cost thousands of jobs and jeopardize the reliability of the electrical system.

Environmentalist Stand

- Deregulation is a threat to health. They say that without special legislative precautions, deregulation will lead to increased productivity by coal-burning plants in the Midwest that will send a wave of air pollution to the Northeast.

Forbes September 9, 1996

Coal on the Internet

Pg. 60

- The \$20 billion coal industry counts on utilities for 80% of its business. As coal prices get forced down because of deregulation, coal becomes more competitive against oil and gas as a raw material for electricity.

The Economist January 6, 1996

Electricity Deregulation: A Nasty Shock

Pg. 20

- As from January 28, 1998, power generators in California will sell their electricity to a wholesale pool at a rate determined by supply and demand every half-hour or so. An independent body, will run the transmission lines, which will remain the property of the power companies.
- The goal is to provide customers with a bit of competitive choice. Customers will be able to buy electricity from their existing utility at a basic rate governed by the pool's spot price. Customers will be able to strike individual "direct-access" agreements with the utility of their choice, with bigger discounts presumably being offered for longer contracts.

MEMORANDUM

TO: TOM FREEDMAN
FROM: RAVEN MONTGOMERY
RE: IDEAS FROM VARIOUS MAGAZINES
DATE: JUNE 10, 1997

ENVIRONMENT

 *National Journal June 7, 1997*
Pg. 1126

- January 1 in California will be the nation's first electricity deregulation law begins and homeowners and businesses can purchase their electricity in the open market.
- The demand for cheap power will the energy industry toward the nation's lowest-cost energy sources.
- Over the next 10 years, electricity deregulation will be on an enormous boon for utilities with coal-fired power plants.
- In the long-run electricity deregulation can push utilities to stop using their less efficient nuclear power plants and turn to national gas for additional electricity.

Newsweek June 16, 1997

Pg. 8

- In Montana a natural landmark was destroyed and local authorities are debating whether or not to restore it

US News June 16, 1997

Pg. 19

Book: Here's Looking At You, 2000

- Health curriculum used in many public schools that encourages children to look in their cupboards at home for "poisons" including alcohol and tobacco products. It also urges children to confess problems at home by writing secret messages to their teachers about the problems.

Newsweek June 16, 1997

Pg. 8

- Lead-based paints continue to danger the population, as do polluted drinking water, leaded crystal, some imported canned foods, and ceramics, etc.
- It is very important because of the susceptibility of young children and fetuses.

Prevention

- Identifying environmental sources of lead to minimize further exposure:
 - Do-it-yourself kits in hardware stores that help to detect lead in paints and ceramics

Fuel Fight

As competition comes to the electricity industry, consumers and corporations will choose their fuel. Coal and natural gas look like winners. Nuclear power could be a loser. But Washington might mandate increased use of solar and wind power.

BY MARGARET KRIZ

Imagine the day when finicky consumers can choose how their electricity is produced much as they now select their gourmet coffee. In California, that shopper's paradise begins on Jan. 1, when the nation's first electricity deregulation law kicks in and homeowners and businesses can purchase their electricity on the open market.

Environmentalists predict that some socially conscious Californians will opt for renewable energy sources such as solar and wind power, thereby transforming the focus of the electricity industry in the West.

"There are people who feel strongly about renewables and will be willing to pay a premium for them," said James Macias, vice president and general manager of electric transmission for Pacific Gas and Electric Co. "And some companies might use that as part of their brand-name image."

Of course, Wall Street energy analysts argue that most customers will simply pick the cheapest power on the market. Price is especially critical for large manufacturers who use most of the nation's electricity. "Commercial customers that are in very competitive global businesses will be looking for the best deal they can get," Macias said.

As competition comes to the electricity industry, the demand for cheap power will push the energy industry toward the nation's lowest-cost energy sources. "There is real competition just around the corner," said energy analyst Edward Tirello of NatWest Securities in New York City. "Prices will go down. You'll be surprised."

Over the next decade, electricity deregulation will be an enormous boon for utilities with coal-fired power plants, many of which have large untapped reserves of inexpensive electricity capacity. Analysts predict that in the short term, most of the public's new demand for electricity will be supplied by those existing plants and by previously mothballed coal-fired facilities.

Over the long term, electricity deregulation could also push utilities to retire

their less efficient nuclear power plants and turn to natural gas for additional electricity.

Winners and losers among the fuels will be determined by price and how fast demand for electricity grows in the United States. But the web of laws and regulations that federal and state policy makers are drawing up to govern the electricity markets will also play a crucial role. For example, Congress may guarantee renewable fuels a slice of the electricity market, even if they're more expensive than coal or natural gas.

Every fuel faces formidable hurdles as the energy companies try to grab a large share of the \$200 billion-a-year electricity market:

- Coal, which now provides 55 per cent of the nation's electricity, is cheap, plentiful and expected to dominate the power markets for decades to come. But as the nation gears up to control global warming and other pollution problems, the oldest coal-fired power plants could be shut down or forced to install costly pollution-control equipment that would jack up costs.

- Natural gas, banned as an electricity fuel during the 1970s energy crises, is



Franklin: Coal and gas win in a free market.

Southern Co.

bouncing back. In recent years, however, natural gas has been hurt by lax environmental laws that favor coal. Now industry executives complain that their growth would be jeopardized if Congress forced electricity companies to sell green energy.

- Nuclear power, which provides 20 per cent of the nation's electricity, has been plagued by safety concerns, and now the federal licenses for many nuclear power plants are beginning to lapse. Energy analysts predict that only the best-run nuclear power facilities will survive in the deregulated electricity market.

- Renewable energy sources have made great technological strides, but continue to be considerably more expensive than the fossil fuels. State and federal lawmakers, however, are considering whether to subsidize green power.

- Oil, which accounts for 2 per cent of the nation's power, lost its panache as an electricity fuel after the 1970s oil crises. Most Wall Street analysts don't envision oil making a comeback in a deregulated market.

To compete in the new electricity marketplace, energy companies will also have to respond quickly to increases in demand. Historically, monopoly utilities had the luxury of building huge coal-fired and nuclear power plants that took 10 years to construct and 40 years to pay off. But today's competitive electricity businesses will need a faster return on their investments. That means they're likely to build smaller, cheaper generating plants—most likely high-efficiency natural gas-fired power plants.

"If the electricity market is left to economics, it's going to be gas and coal. Companies will keep running their most economical nuclear plants," said Allen Franklin, president and chief executive officer of Georgia Power Co. "There is just no way that most of the other technologies are even going to be close to competing on pure economics any time soon."

GAS IS A NATURAL

In late May, New Smyrna Beach, Fla., gave PanEnergy Power Services Inc. a foothold in the fast-growing state by tentatively agreeing to let the company build a 250-megawatt natural gas power plant in the town.

In building the new facility, PanEnergy was positioning itself for what many see as a promising future for natural gas. Energy analysts have long predicted that most new power plants built in the United States will be fueled by natural gas. So far, however, few facilities have been needed, because plenty of cheap electricity has been available from existing coal-fired power plants around the nation.

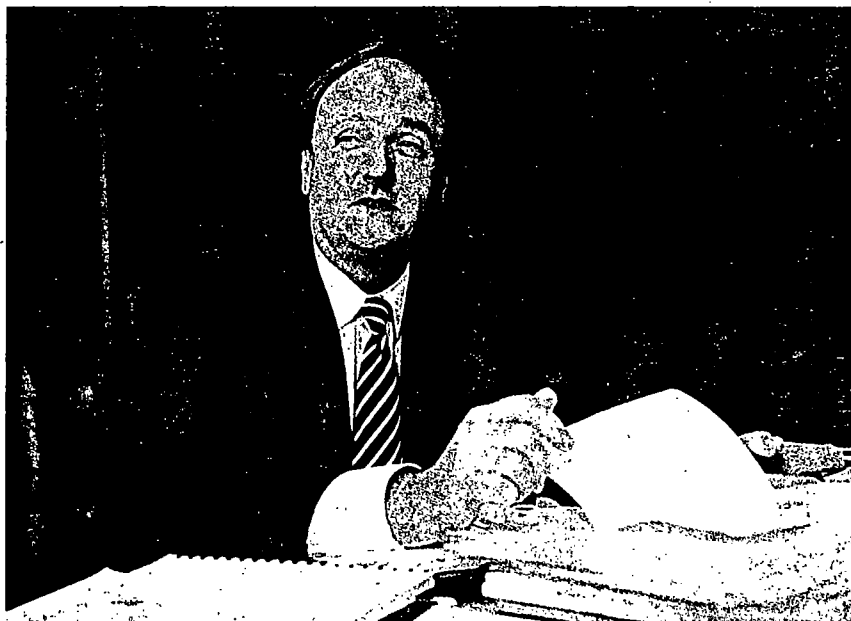
"Many in Washington are fond of reminding me that natural gas is the fuel of the future," Brent Allen, vice president of Alpar Resources Inc., a small natural gas production company in Perryton, Texas, said at a recent congressional hearing. "The trouble is that nobody seems ready to make it the fuel of the present."

In some regions, however, the electricity surplus is beginning to shrink. For example, more power will soon be needed in the Southeast during the peak daytime hours in the summer, when cus-

according to the Energy Department's Energy Information Administration.

But natural gas still faces considerable obstacles on the road to becoming the fuel of the future, especially if state or local lawmakers take steps to restrict the energy market. "There is no slam dunk for natural gas," said Nicholas J. Bush, president of the Natural Gas Supply Association.

Gas industry lobbyists worry Congress will let each state decide when to open its market to electricity competition instead of setting a federal deadline.



Richard A. Bloom

Natural Gas Supply Association's Bush: "There is no slam dunk for natural gas."

tomers turn on their air-conditioners. "I think the period of excess generation capacity in the Southeast is almost past," said Georgia Power's Franklin. "Most of the new generation being planned is gas."

Natural gas is also in line to pick up the electricity customers left behind when the nation's most costly nuclear power plants reach retirement age. "Gas will pick up all of that load," predicted Jeff Skilling, chief executive of Enron Capital and Trading Resources Corp., a subsidiary of Enron Corp.

It helps that natural gas companies can respond quickly to new demand by building smaller plants on a three-year timetable. By comparison, it can take 10 years to build a coal-fired power plant. "Natural gas is well positioned," said David Garcia, an energy analyst at Principle Financial Securities, Houston. "Your costs are known, your delivery times are short and natural gas is the most ecologically friendly fossil fuel."

Natural gas now has 10 per cent of the electricity market. But by 2015, almost 30 per cent of the nation's electricity is expected to be generated by natural gas,

That move could prevent the independent electric generators—most of which use natural gas—from expanding their market territories beyond the single utilities that most of them serve.

Natural gas firms also oppose congressional proposals that would force electric companies to sell some green energy—a move that will directly cut into natural gas's market share. "The renewables are robbing the gas market, and they're gaming the system by saying, 'You have to have a certain per cent of your electricity come from us because we're important, even if we cost three times as much,'" said energy researcher Mark P. Mills, the president of Mills-McCarthy & Associates Inc., an energy consulting firm.

Other analysts question whether natural gas is the best business decision for the future. Sure, rates are low now, mused Tirello of NatWest Securities, but price is a question over the long run. "Coal prices haven't changed in 20 years, but natural gas swings with the wind," he said. Tirello noted that natural gas companies are reluctant to sign long-term contracts with electric companies

because they can get higher rates for their fuel during the winter when gas is used for heating homes and there is increased demand.

Concerns also remain about whether the nation's natural gas delivery system is extensive enough to handle any sudden increase in demand. In the face of such worries, some utility officials warn against a rush to natural gas.

"For the next few years, while they're almost giving gas away, everybody is going to build gas," said Georgia Power's Franklin. "We're going to overload the pipelines. Then all of a sudden gas prices are going to go up a lot. And we're going to say, 'How could we have been so foolish to build all these gas plants?'"

COAL IS COOL

Wall Street analysts predict that for the foreseeable future, coal will be the nation's anchor fuel, providing at least half the electricity in the United States. It's cheap and thanks to new mining and combustion technologies, coal-fired electricity will only get cheaper.

Some of the oldest coal-fired plants are expected to be shut down over time, but they could be replaced with smaller, high-efficiency coal plants. By 2015, coal will have 50 per cent of the nation's electricity market, according to the Energy Information Administration.

But what about the other half of the electricity pie? Right now, the second most dominant fuel in America is nuclear power, which provides 20 per cent of the nation's electricity. In 20 years, however, nuclear will have only a 10 per cent share of the energy market. (See chart, this page.)

The decline will come as the nation's 109 nuclear power plants reach the end of their 40-year licenses. By 2015, 45

licenses representing about a third of the current nuclear power capacity will come up for renewal at the Nuclear Regulatory Commission (NRC). In addition, in the future deregulated electricity market, questions about the operating costs and safety of those older plants are likely to force some shutdowns.

The darkest forecast of the nuclear industry's future predicts that 40 per cent of the nuclear generating capacity in the United States is vulnerable to being shut down because of high operating costs.

"The Administration cannot meet its goals to reduce carbon dioxide emissions without nuclear."

—Joe F. Colvin of the Nuclear Energy Institute

That study, funded by the Interstate Natural Gas Association of America, has been roundly denounced by the nuclear power industry.

At a May Senate workshop, Commonwealth Edison president and CEO Samuel K. Skinner argued that reports of nuclear power's death are premature. "We don't agree that that many nuclear plants will close," said Skinner, whose

Chicago-based utility owns 12 nuclear facilities in Midwest. "But everyone is looking to see if their plants can make money in the new deregulated environment. If not, they will close. There are a number of older nuclear plants that may not make it in deregulation."

Not all nuclear power plants are economic poison. Nuclear power plants owned by Georgia Power, for example, have remarkably low operating and maintenance costs. "Those plants will be the last plants ever shut down by competition," Georgia Power's Franklin said.

However, recent safety concerns at some nuclear facilities are causing headaches for their owners. Utility executives realize that in a deregulated electricity market, they have no guarantee that their customers will underwrite expensive repairs. If the NRC shuts down a nuclear facility, company stockholders will have to swallow the costs.

Despite those fears, several companies are considering buying up some of the most efficient nuclear power plants and putting them under one management umbrella to cut costs. Those perspective buyers are looking for huge discounts to compensate for the potential risks. "If somebody pulls them all together, they could make a killing in the wholesale market," said energy researcher Mills. "It's the equivalent of junk bonds—junk electrons."

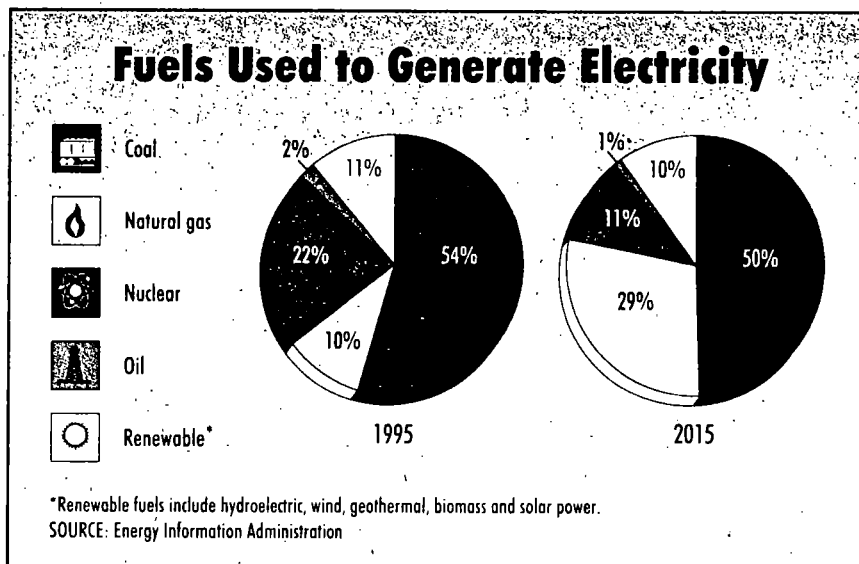
Despite most experts' gloomy prognosis, nuclear power has more going for it than most people give it credit for, according to Joe F. Colvin, president of the Nuclear Energy Institute. Colvin argues that nuclear power is the solution to the Clinton Administration's environmental headaches. "It's pretty clear that the Administration cannot meet its global climate change goals to reduce carbon dioxide emissions without nuclear," he said.

But environmentalists are even more opposed to nuclear power than they are to coal-fired plants.

Colvin also predicted that the nation's nuclear power plants won't all close down when their licenses expire. Nine utilities are taking part in a pilot program designed to test the NRC's relicensing process. But the pilot project has experienced a "slowdown" because of concerns about electricity deregulation and because of a recent NRC crackdown on safety problems at some nuclear power plant facilities, he admitted.

MARKET LIMITS

In February, Massachusetts Gov. William Weld unveiled an electricity deregulation package that included a unique provision aimed at curbing air pollution in the northeast region. The plan would



create a system of pollution standards for electricity produced in Massachusetts or transmitted to any customer in the commonwealth.

Companies that want to sell electricity in Massachusetts would be required to calculate their annual pollution rates. Companies that exceeded the Massachusetts limit would be forced to buy pollution permits; those that produced cleaner electricity could sell permits. A similar proposal is being floated in two other northeastern states.

"We're trying to set a standard that would drive the evolution toward cleaner and cleaner fuels," explained David B. Struhs, commissioner of the Massachusetts Environmental Protection Department. "We also want to encourage cleaner power plants to come on line and the older ones be retired."

The Weld plan is one of several strategies being considered on the state and federal levels as a way to insert environmental protection issues into electricity deregulation. Those plans could dramatically affect fuel costs.

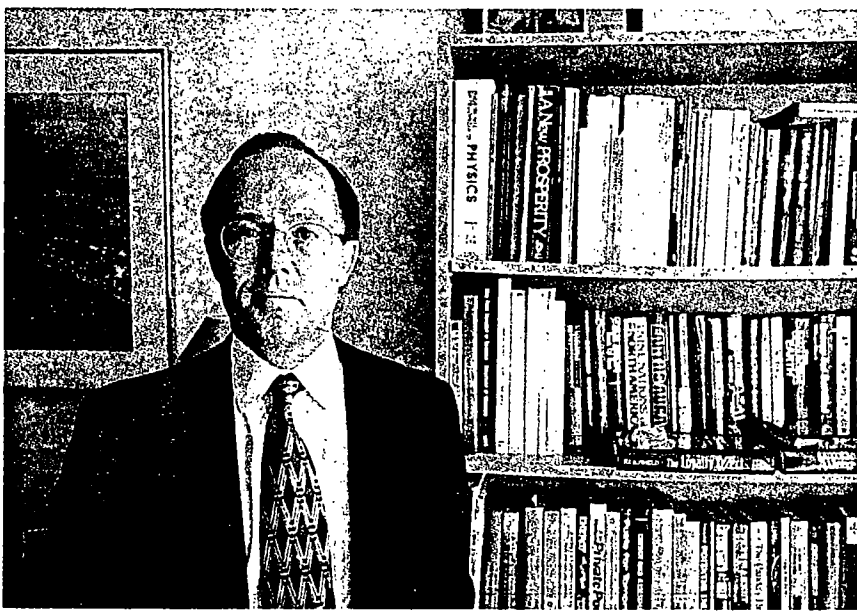
Some lawmakers argue that a competitive electricity market will take care of environmental concerns. An April poll conducted for House Commerce Committee chairman Thomas J. Bliley Jr., R-Va., indicated that consumers are willing to pay more for nonpolluting electric power. In a press release, Bliley concluded that "given a choice, American consumers will be more effective in protecting the environment than any number of government regulators."

But most energy industry executives and analysts agree that green energy sources need government subsidies to compete in the deregulated electricity industry. "An unfettered market can't make all the decisions for society," argued Lawrence Plitch, vice president and general counsel at Wheelabrator Technologies Inc., a Hampton (N.H.)-based company that burns trash to generate electricity.

Lawmakers in California included in their deregulation plan a four-year \$500 million subsidy to the state's renewable energy companies for research and development. The money will come from a surcharge on electricity rates.

"We wanted to have the most robust, dynamic, market-driven generation market, and yet we need to support renewables," said Macias of Pacific Gas and Electric. "In the long term, this program will drive down the cost of these renewable technologies and make them competitive with traditional fossil generation."

On the federal level, Congress is gravitating toward a mandate for renewable energy. Several electricity deregulation bills pending on Capitol Hill would re-



Mills: Renewable energy sources "are robbing the gas market and gaming the system."

quire all power companies to buy part of their energy from renewable energy sources. The most modest proposal, a 3 per cent portfolio standard, is being promoted by Rep. Daniel Schaefer, R-Colo., who chairs the Commerce Subcommittee on Energy and Power. At the other extreme, Sen. James M. Jeffords, R-Vt., calls for 20 per cent of the national electricity supply to come from renewable sources.

But even if Congress forces electric companies to buy more environmentally friendly electricity, most energy experts agree that renewable technologies will not be able to compete on the open market until they make some significant engineering breakthroughs. Until then, renewable energy will not only be too expensive, it will also lack the capacity to contribute a significant amount of energy to the nation's energy grid.

"The electricity market is gigantic and there are only so many really good wind [power] locations right now," Enron's Skilling said. "As the technology gets better, I think we'll find there are more applications where these types of energy will make sense," he added. Enron owns a solar company that Skilling described as "tiny, but 20 years down the road has the potential of being a very sizable business."

In two decades, the nation will be in need of sizable increases in electricity as the public demands more power and nuclear power plants and some of the older coal-fired power plants retire.

That's why energy executives are maneuvering for a better position in the long-term electricity contest. The nuclear industry's Colvin says that by 2015, nuclear power will have worked out its safety

and nuclear waste problems and will be ready for an American renaissance. But most analysts say the additional power will come from the lowest-cost energy sources in the nation—which will most likely be fossil fuels.

Georgia Power's Franklin warned lawmakers to not to rely strictly on the free market to shape the electricity industry of the future. "We need to be very, very careful about letting short-term energy costs drive long-term energy policy," he said. Arguing that America will eventually regret today's trends to phase out the country's nuclear power industry, Franklin said that the federal government should take a more active role in setting national energy policy.

"Do you let the market be responsible for us not having blackouts?" he asked. "Are we going to leave it purely to a competitive market and take our chances? Or will there still be some kind of requirement for a mix of electricity generation and a certain amount of energy reserves?"

But Enron's Skilling suggested that the free market is already taking hold in America, despite Congress's slow progress in passing federal legislation and the conflicting deregulation proposals emerging at the state level.

"Wholesale competition is causing the electricity markets to become more liquid and more transparent," Skilling said. "When that happens, companies won't be able to hide bad operating decisions."

The result, he said, is that high-cost energy sources will fall by the wayside and cheap electricity will dominate the power market. And Americans will enjoy the ultimate benefits of a free market: low-cost energy. Skilling concluded. ■

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CHAPTER 11 PROTECTION
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Source: The Wall Street Journal
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Companies: Northeast Utilities

Abstract: Northeast Utilities said two of its largest operating units could be forced to file for bankruptcy protection and write off assets valued at about \$800 million if New Hampshire proceeds with an electricity deregulation plan.

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Article Text:

Northeast Utilities said two of its largest operating units could be forced to file for bankruptcy protection and write off assets valued at about \$800 million if New Hampshire proceeds with an electricity deregulation plan.

Northeast Utilities is already under financial pressure related to its shuttered nuclear reactors in Connecticut. At the same time, New England states are moving faster than many other parts of the country to deregulate electricity prices to reduce the region's high power prices, thus squeezing the Berlin, Conn., utility as it prepares to compete for customers.

On Friday, the company's chief financial officer, John H. Forsgren, painted a grim scenario in testimony before the New Hampshire Public Utilities Commission. He told regulators that bankruptcy filings could be likely for its Public Service Co. of New Hampshire and North Atlantic Energy Corp. units under a preliminary state restructuring proposal in which the prices for electricity would vary based on market forces, instead of being strictly tied to the cost of production. The company also made similar statements in a Friday filing with the Securities and Exchange Commission.

If the state proceeded, Mr. Forsgren said, the two utilities' investors and lenders would be allowed to insist on accelerated repayment of debt totaling \$1.2 billion, as well as parent company debt valued at about \$300 million. Because the units wouldn't have sufficient assets to cover that debt, they would be in default, making it inevitable for the two units to file for protection from creditors under the U.S. Bankruptcy Code, he said.

In an interview, Mr. Forsgren declined to discuss what effect such filings would have on the parent company. He also predicted that New Hampshire regulators would probably not choose to implement its preliminary plan because it would prove to be too much of a hardship for Public Service Co., the state's largest utility. Northeast Utilities, which provides 75% of New Hampshire's electricity, has threatened to sue to stop any deregulation plan that didn't provide substantial financial allowances for 'stranded costs,' or past investments in power plants that assumed a guaranteed, regulated rate of return.

New Hampshire's newly elected governor, Jeanne Shaheen, said in her inaugural address that the state 'should seek to avoid a lengthy court battle that could further threaten our economic competitiveness.' Mr. Forsgren calls the remark 'encouraging.'

But observers also took Mr. Forsgren's comments as a stark reminder of Northeast Utilities' difficulties. If the two New Hampshire units filed for bankruptcy protection, 'it would create a situation where people would have to talk more about a possible bankruptcy' for the parent company, says Bear, Stearns & Co. analyst Dan Scotto. 'Any loss of equity would be a destabilizing event for NU. These two subsidiaries have been the only two that were doing well in the whole system.'

Northeast Utilities faces at least \$800 million in costs associated with the outage of its Millstone reactors in Waterford, Conn., which are closed pending safety reviews, and last summer cut its quarterly dividend to 25 cents from 44 cents to save cash. Federal criminal investigations into practices at the plants are also under way. Northeast Utilities has said it is cooperating with the investigation.

Full pricing competition is set to begin in New Hampshire on Jan. 1, 1998. Under a deregulation pilot program limited to a fraction of customers, some power prices have been cut by more than 20%.

Regulators are expected to outline a final plan on Feb. 28. that might lower rates 18% or so, depending on market prices. Earlier this month a consultant, LaCapra Associates of Boston, estimated that under the plan, Public Service Co. would face about \$1.9 billion in stranded costs. The state would provide revenue guarantees to partly offset those costs.

Northeast Utilities has counterproposed to reduce rates 10% over a longer phase-in period, allowing the two local units to pay down more of their debt, which mostly stems from the construction of the Seabrook, N.H., nuclear plant.

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Subjects: Economic impact; Electric utilities; Deregulation; Shutdowns; Layoffs; Tax revenues

Abstract: Deregulation of the electricity business is starting to send shivers through local economies that have become highly dependent on power facilities that won't be able to compete against a new generation of highly efficient gas-fired plants. The economic dislocations are likely to be wide-spread.

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Article Text:

HADDAM, Conn. -- The Connecticut Yankee nuclear-power plant here once employed nearly 400 workers and the taxes it paid covered half of Haddam's town budget. That was before the plant faced competition from other suppliers that could generate electricity more cheaply. In December, power generation at the aging plant was permanently halted, cutting its work force to 300 on the way to a maintenance crew of 100 a year from now. Connecticut Yankee's local tax payments, which are expected to contribute \$4 million of Haddam's \$15 million budget in the fiscal year ending June 30, will drop to \$2.5 million next fiscal year and decline further after that.

Deregulation of the electricity business is starting to send shivers through local economies that have become highly dependent on power facilities that won't be able to compete against a new generation of highly efficient gas-fired plants. And unlike isolated factory closings, the economic dislocations caused by power-plant closures are likely to be far more widespread, as the electricity industry's deregulation affects utilities across the country.

'The overall economic benefits [of deregulation] are clear, but this will be a problem in dozens, if not hundreds, of towns,' says James Wetzler, a group director at accountants Deloitte & Touche who helped write a report on the issue commissioned by the U.S. Department of Energy.

The opening of electricity markets to freer competition, which is occurring more rapidly in New England than in most other parts of the country, is already delivering some promised benefits. In a few areas, homeowners have seen monthly bills cut by 20%, while industrial users have negotiated private deals with utilities that may include even greater savings.

But the introduction of competition very likely will also produce some unexpected losers. In California, for example, officials in San Luis Obispo County estimate that if Pacific Gas & Electric Co. is allowed to accelerate the depreciation of its Diablo Canyon nuclear plant, as the utility has requested under a state deregulation plan, the county will lose as much as \$9.6 million of the \$15 million available annually for discretionary spending. If the plant were to close entirely before its planned retirement, 'that would just blow the lid off' of county

financing, says county administrator Robert Hendrix.

✶ In the Midwest, school districts and municipalities in Ohio stand to lose about \$400 million in annual revenue if utility-tax rates are reduced as part of proposed deregulation plans, according to Ohio State University professor Howard Fleeter. One small school district in Perry, Ohio, would face a drop of 44%, or \$11.9 million, in property-tax revenue, he projects. 'There are a lot of smaller towns that could really get hammered by this,' Mr. Fleeter says. Partly because of his findings, the Ohio legislature postponed consideration of a deregulation bill.

✶ In addition to government budgets, some businesses are already feeling the effects of utility deregulation. The Riverdale Motel, five miles upriver from the Connecticut Yankee plant, has hosted a steady stream of traveling engineers and others with business at the plant over the years. Plant-related business accounts for about 20% of the motel's revenue, now about \$400,000 a year. But since the closing of Connecticut Yankee, which is owned by a consortium of utilities and operated by Northeast Utilities, the motel has laid off one housekeeper and cut the hours of four who remain. 'There's no way this won't hurt,' says Riverdale's co-owner, Joseph Seiferman.

✶ It's still unclear how many of the country's roughly 5,600 power plants might close because of competitive pressures. For starters, some analysts estimate that deregulation will cause 20 of the 109 nuclear-power plants in the U.S. to be shut down before their licenses run out.

✶ In addition to closings, many more power plants will change hands because some utilities already have announced plans to get out of the generation business entirely and instead just buy power to distribute. New England Electric System, for example, is trying to sell 18 fossil-fuel and hydroelectric facilities in four Northeastern states to new owners that are expected to cut operating budgets and work forces. Town officials in Somerset, Mass., where one of the plants on the block is located, estimate the facility's property-tax bill might fall by as much as \$8 million a year as the result of a sale, out of a total levy of \$24.5 million.

Meanwhile, in Haddam, a huge property-tax increase that will fall hardest on homeowners is under consideration. Town officials hope to cut spending on roads enough to keep the property-tax increase below 50% and avoid school-teacher layoffs. 'I'm concerned about some of the older residents who are having a

hard time paying their taxes already,' says

First Selectman Marjorie W. DeBold. The town was also hurt last September by an \$11 million judgment for overtaxing Connecticut Yankee.

Clint Gladding, former plant-engineering manager at Connecticut Yankee, now works at Northeast Utilities' larger Millstone nuclear facility in Waterford, Conn., where all three reactors have also been closed pending safety reviews. The utility says it is conducting economic studies to see whether the three units remain economic to operate.

'It was just crushing when they announced the decision' to close Connecticut Yankee, Mr. Gladding says, as he shows a visitor his old office next to the reactor's domed containment building.

Caption:

Maintenance crews work on one of the wind turbines at Kenetech Windpower; Huge propeller turbines at Kenetech Windpower near Livermore, Calif., were built as an alternative to fossil fuels. (Photographs by Jim Wilson/The New York Times)

'Fading Power' shows total domestic production of energy from geothermal, wind, waste, wood, photovoltaic and solar thermal sources, 1973-95. (Source: Department of Energy)

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Access No: 44568119970201 ProQuest - The New York Times (R) Ondisc
Title: Has a State Tried Too Hard to Deregulate?
Authors: Agis Salpukas
Source: New York Times, Late Edition (East Coast)
Date: Feb 1, 1997 Sec: 1 Business/Financial Desk p: 33
Length: Long (2338 words) Type: News
Subjects: Deregulation; Public utilities; Electric utilities; Pilot projects; Electric Light & Power; Regulation & Deregulation of Industry; Prices (Fares, Fees & Rates)
Companies: Enron Corp; New Hampshire; Peterborough (Nh)
Abstract: Comment on New Hampshire's pilot program to open state's electricity market to full competition in 1998, what is seen forerunner of national deregulation; situation in Peterborough described; Enron Corp, based in Houston, was determined to make a splash in Peterborough, so it set up office last April with 30 salespeople, spent \$25,000 to help revitalize downtown and even threw a picnic for residents; most of all, it promised cheaper electricity; as result, it beat out 30 competitors to gain Peterborough's endorsement as 'marketer of choice' for local customers, and then signed up 700 of them, including town itself; photos (L)

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Article Text:

Peterborough, N.H. -- With its white-clapboard houses set against pine-covered hills, this New England village of 5,300 might seem a piddling conquest for a \$13.2 billion energy company trying to make a name for itself as a national supplier of low-cost gas and electricity to homes and businesses.

But Peterborough is part of New Hampshire's pilot program to open the state's electricity market to full competition in 1998 and a forerunner of national deregulation, and the Enron Corporation, based in Houston, was determined to make a splash here. So it set up an office last April with 30 salespeople, spent \$25,000 to help revitalize the downtown and even threw a picnic for residents. Most of all, it promised cheaper electricity.

As a result, it beat out 30 competitors to gain Peterborough's endorsement as the 'marketer of choice' for local customers, then signed

up 700 of them, including the town itself -- far more than any of its rivals. [Last Sunday, it announced its victory in Super Bowl commercials beamed to 128.9 million viewers.]

'It's nice to have a choice,' said Daniel L. Keaveny, owner of the Jellison Funeral Homes, who says his electricity bill has fallen by 15 percent, or nearly \$20 a month, since he switched to Enron from the area's traditional utility, the Public Service Company of New Hampshire. 'They had a monopoly,' he said of the utility in a dismissive tone. 'I hadn't heard from them in years.'

Other residents say they have experienced similar savings, and Enron plans to spend \$30 million in a nationwide publicity campaign featuring their appreciative comments.

There is only one problem with all this talk of lower rates, a problem that many of the townspeople are not aware of. Most of the savings are not a result of free-market competition or any economies of scale that an energy giant like Enron might bring to bear on a regional market. Rather, they stem from state-mandated subsidies and from the willingness of Enron and the other marketers to shave their profit margins to near zero to get a piece of the action.

And while the deregulation of the national market for electricity might ultimately bring about lower prices in some parts of the country, the monthly bills of the 17,000 New Hampshire residents taking part in the current pilot program could bounce back up if the subsidies are phased out and if Enron and other winners of the marketing battle reward themselves by taking a profit.

'There is a danger we have raised expectations,' George R. McCluskey, head of the electric restructuring division of the New Hampshire Public Utilities Commission, said in an interview in his office in Concord.

In a sense, the state felt it had to raise those expectations; without the 10 percent subsidies as an inducement, officials feared, too few people would join the pilot program to get the deregulation ball rolling.

That is partly because most consumers did not understand what deregulation was all about and were loath to switch to an unknown new marketer for a few dollars a month in savings that might never materialize.

Their confusion was understandable. After all, the same wires would continue to deliver electricity to their homes no matter who their marketer was, and the same local utility would continue to bill them. The potential gold mine in the new freedom is for the marketers. They can now shop around for cheaper power outside a local utility's power grid and deliver it into that grid. In the old days, the utilities did not have to open their lines to outside providers; now they do.

Industry regulators like Mr. McCluskey, as well as executives at utility companies and even some marketing companies, worry that the ballyhoo over New Hampshire's program will raise similar expectations in other states that are deregulating their utility industries. Twenty states are well on the way to opening their electrical utilities to competition.

But Jeffrey K. Skilling, Enron's president, brushed aside concerns that lower rates might be short-lived. Once his company is able to compete for all the customers in the state and build up a large base of customers, it will be able to recover its marketing costs, make a profit and still keep the cost of power at the current low levels, Mr. Skilling asserted.

And if Enron eventually gains the right to compete for other services like billing and meter reading, it could drive those costs down, too, for further savings to customers, he added. 'To the extent we've been given a chance to compete, we've had a huge impact,' Mr. Skilling said.

If New Hampshire is any guide, consumers elsewhere are apt to be overwhelmed by a flood of freebies and complicated offers in the early stages of electricity deregulation. Aside from Enron, 30 other marketing companies inundated Peterborough residents and other participants of the

state's pilot programs with mail and phone solicitations.

One marketer, Green Mountain Energy Partners of Vermont, sent out brochures with tree seedlings attached and promised \$10 in 'Eco Credits' against future bills to any electricity users who signed up by May 28. 'Then, if you plant this tree, we'll give you \$2 more in Eco Credits, plus an additional \$1 Eco Credit if you send in a photo of your planted tree,' the mailing read. Another company sent free birdhouses to new customers. Enron offered a choice of one low rate plus a \$50 sign-up bonus or an even lower rate without the bonus.

The blitz confused and even frightened some people, said Paul E. Ramsey, the division manager of customer service at Public Service. Some elderly people, misconstruing the pitches they got as threats to cut off their power, pleaded with his company to strike their names from the mailing lists provided to marketers, Mr. Ramsey said. 'Some were in tears,' he said.

Other potential customers, skeptical of the claims, simply threw away the literature, passing up savings that for some businesses could have run into hundreds of dollars a month.

Only 12 of the 31 companies survived the marketing frenzy, and only because they could absorb the costs of setting their prices for power so low -- between 2 cents and 3 cents a kilowatt-hour and in some cases below 2 cents, the wholesale cost most marketers pay to the New England Power Pool, according to Mr. McCluskey.

By contrast, rates previously averaged about 3.5 cents for residential customers for the power portion of their bill. (The total cost to New Hampshire consumers of electricity, including transmission, overhead, service and other charges averaged about 15 cents a kilowatt-hour. By comparison, New Yorkers pay an average of about 13 cents to the Consolidated Edison Company.)

'The prices that have resulted mean that they are not making any profits,' Mr. McCluskey said. 'They are at rock bottom.'

If the marketers bump their rates back up to traditional levels, their customers' average 15 percent saving would be reduced by nearly one-third, Mr. McCluskey said. Even more troubling to some, state-mandated subsidies account for most of the rest of the price differential, meaning that if they are ended -- a real possibility -- much of the gains consumers now enjoy will evaporate.

The pilot program expires on June 30, 1998, by which time the entire state will be deregulated.

'In New Hampshire, the savings are artificial to make sure you got participants,' said Gary Long, vice president of economic development and customer service at Public Service. 'My concern is that people are getting used to 15 to 20 percent savings. People will expect to get 15 to 20 percent under real-world conditions.'

Another doubter is Edward Harms, an assistant operator at the Vermont Yankee nuclear plant. Mr. Harms went about choosing a marketer scientifically, collecting all the mailings he got, not only from New Hampshire but also from companies in Vermont, Connecticut, Massachusetts and even California. He then put all the prices, incentives and other data in his computer and ran comparisons.

'It's very hard to sort out from the information they send you,' he said. He settled on the Granite State Electric Company, a small New Hampshire utility owned by the New England Electric System, adding, 'The marketers are going with such low numbers that they are not going to be able to continue that way.'

The subsidies are actually paid by the traditional utilities, which agreed to dip into their reserves to help entice people into the pilot program. They have accepted deregulation as a fait accompli and want a close-up look at how the new energy setup will look. Many proved to be quick on their feet, and won many customers through their own intense

marketing efforts.

What will happen to the state's utilities in the coming deregulation is still uncertain. Some are weighed down by huge debts -- 'stranded costs' in industry parlance -- from investments in nuclear power and other projects that never panned out. Until now, the state has bailed them out by authorizing special levies on customers' bills.

The state must decide whether to expose these financially vulnerable companies to the full brunt of outside competition, or continue to support them with surcharges and deprive consumers of the lower rates that they are coming to expect. Currently, Public Service levies 5.2 cents.

'It's going to be very difficult to meet customer expectations with competition alone,' Mr. McCluskey said. 'The only alternative will be to deny a substantial amount of the stranded costs. Such denial, however, may result in financial difficulty for the utilities.'

That may be an understatement, Public Service, for example, is still recovering from a bankruptcy filing made in 1988 mostly because of cost overruns and problems from the construction of the Seabrook nuclear plant.

And John H. Forsgren, the chief financial officer of Northeast Utilities, its parent company, warned New Hampshire regulators recently that the New Hampshire utility could be forced to seek bankruptcy protection if the stranded costs were not recovered.

The local utility's loss could become Enron's gain. While the company has signed up only 1,400 people, and has yet to make a penny from its involvement in the pilot project, it thinks the investment will pay off.

'Are we creating value for our shareholders? Yes,' said Steven L. Lawrence, manager of the company's Peterborough office. Referring to the tens of millions of homes and businesses in the United States that Enron believes will one day be open to competition from outside electricity suppliers, he added, 'We're learning about the biggest marketplace in the country.'

In what may be a harbinger for other states that deregulate their electric utility industries, more than 30 companies in a pilot program have flooded New Hampshire with solicitations for business.

'Real Savings or Illusion?'

A pilot program in New Hampshire that allows people to choose their electricity supplier has reduced the electric bill of many participants by an average of 15 percent. But the savings come mostly from a rebate from the state's utilities and lower than usual prices from companies' trying to entice people to sign with them. Here is sample bill prepared by one of the state's utilities.

UNBUNDLED CHARGES: The state regulatory commission told the utilities to list the component charges of each electric bill so that consumers could see what they are paying for. Under the current deregulation plan, utilities will still be responsible for everything but the actual cost of the electricity.

STRANDED COSTS: What to do about costs from power plants and other projects that have not been paid for remains to be decided. The utilities say the costs must continue to be passed along to consumers or they will be pushed into bankruptcy.

REBATE: To entice people to join the pilot program, the utilities agreed to reimburse customers for about 10 percent of their bills. This rebate may disappear when deregulation is statewide.

COST OF ELECTRICITY: Many companies in the pilot are selling electricity only slightly above cost, in this case 3.1 cents per kilowatt hour. No one knows where prices will settle. (pg. 34)

Caption:

Residents of Peterborough, New Hampshire, above, chose the Enron Corporation as their electricity supplier. The company is using the

town's decision as part of a national advertising campaign, left. (Kathy Seward for The New York Times)

'An Open Market'

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Access No: 99018319970309 ProQuest - The New York Times (R) Ondisc
Title: Green Power Wanes, but Not at the Grass Roots
Authors: Agis Salpukas
Source: New York Times, Late Edition (East Coast)
Date: Mar 9, 1997 Sec: 4 Week in Review Desk p: 5
Length: Medium (994 words) Type: News
Subjects: Alternative energy sources; Grass roots movement; Energy;
Public utilities; Deregulation; Electric Light & Power;
Prices (Fares, Fees & Rates); Public Opinion
Companies: Central & South West Corp

Abstract: Renewable sources of power have proved to be less than reliable in recent years; they have failed to supply large amounts of energy and, most important, cannot compete with cheap power derived from fossil fuels; while green power itself is in retreat, grass-roots support for it is still widespread; Central and South West Corp, an electric and natural gas utility, recently held town meetings with some of its customers and found strong support for alternative energy sources, even if it cost more; photos; graph (M)

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Article Text:

WINDMILLS, solar panels, steam energy from deep in the earth. Many Americans have yearned to produce energy without polluting the air and water or burning irreplaceable fuels like coal, oil and natural gas.

But renewable sources of power have proved to be less than reliable in recent years. They have failed to supply large amounts of energy and, perhaps most important, cannot compete with the cheap power derived from fossil fuels.

For a time in the late 1980's and early 1990's, the promise of unlimited renewable energy seemed close to realization. Consumers, scientists and entrepreneurs were fascinated. And the companies involved in alternative power sources multiplied, while researchers made breakthroughs that lowered costs. Wind energy produced power for about 5 cents a kilowatt hour, nearing the levels produced at huge coal-burning and nuclear plants. Companies like Kenetech Corporation in Livermore, Calif., developed propeller-churning turbines designed to make wind a mainstream source of energy.

Strong Public Support

But in the past five years, the promise of renewable power has become a distant hope. Incentives provided by state regulators and utilities have disappeared. Federal research funds have been cut by a budget-conscious Congress. The industry itself has stumbled. Kenetech's newest turbines were flawed, according to a stockholder lawsuit and some industry analysts, and the company's wind subsidiary was forced to seek bankruptcy protection.

But while green power itself is in retreat, the grass-roots support for it is still widespread. Central and South West Corporation, an electric and natural gas utility in the Southwest, recently held town meetings with some of its 1.7 million customers and found strong support for alternative energy sources. Most residents said they were willing to pay from \$5 to \$7 more a month to have solar or other alternatives supply part of their energy.

'There is a market out there for renewables,' said E. R. Brooks, chairman of the utility corporation. 'Many people want the option.'

Consumers want the option of using more green power, but it has become harder to get. 'America gets less electricity from solar, wind and geothermal today than it did five years ago,' said Ralph Cavanagh, the energy program director of the Natural Resources Defense Council, an environmental group. Even at its peak in 1987, the industry represented about four-tenths of a percent of the total energy production in this country; today it is about two-tenths of a percent.

California's Commitment

A major reason for the decline involves the deregulation of the utilities industry. Many states are opening their utilities to producers and marketers of low-cost electricity, giving customers a choice and perhaps lower rates. California, which passed its deregulation law last fall, will enable corporations, universities and other big customers to choose their energy provider in 1998. It will also guarantee small customers a rate reduction of 10 percent.

Facing competition, many utility companies have become preoccupied with cutting costs, merging with other energy companies, and expanding overseas. Houston's NGC Corporation, a natural gas seller, recently bought Destec Energy, a local power plant operator. Some utilities are restructuring so they can distribute only electricity.

California, which is home, if not a beacon, to many renewable energy companies, provided vital support for green power by prodding utilities to enter into long-range contracts to buy alternative power at high prices. But in 1994 the Federal Energy Regulatory Commission ruled that states cannot force utilities to use renewable energy instead of cheaper sources. Since renewable energy now costs more than that generated by coal, natural gas and nuclear plants, the ruling effectively undermined the industry. Some companies and projects collapsed.

The renewable energy industry is fighting to keep a foothold in the United States; some companies manage by selling wind turbines and solar panels to underdeveloped countries. A flourishing international market has enabled some companies to survive the downturn in this country. Wind and solar power is popular in countries like India and Pakistan where large rural areas are without power plants and extensive transmission systems. Some European countries are also satisfied customers.

There is a bright side to the American quest for alternative energy. With its deregulation law, California is dedicating a little less than 1 percent of every electric bill to supporting research as well as programs for green power; the fund is expected to total about \$540 million by 2002. In its fiscal 1997 budget the Clinton Administration has also proposed a sizable increase in funds for research into green sources of power, but the proposal may not survive Congress.

As various states begin pilot programs to investigate electricity deregulation, marketers of power are finding that offering some form of green power is a selling point. While green energy has often turned out to be hydroelectric, which is generated through huge dams that inundate land for miles, its environmental appeal has drawn in utilities and other energy companies. Enron Corporation, a major gas distributor and wholesaler of gas and electricity based in Houston, is trying to turn itself into a national marketer of gas and electricity. It recently added renewable energy to its portfolio by acquiring the Zond Corporation, a California-based developer of wind power.

In the meantime technological improvements in the field are continuing.

The cost of making semiconductor systems has sharply dropped with the use of photovoltaic cells, which convert the energy in light to electricity. Researchers at the National Renewable Energy Laboratory, part of the Department of Energy, have produced a bacterium that cuts the cost of converting waste from agriculture and forestry to ethanol. 'Big strides in technology are bringing the cost of power down,' Dr. Charles Gay, director of the laboratory, said.

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Access No: 60854819970415 ProQuest - The New York Times (R) Ondisc
Title: Congress Opens Hearings on Deregulation of Electricity Industry
Authors: Adam Clymer
Source: New York Times, Late Edition (East Coast)
Date: Apr 15, 1997 Sec: A National Desk p: 15
Length: Medium (534 words) Type: News
Subjects: Congressional hearings; Deregulation; Electric utilities; Electric Light & Power; Regulation & Deregulation of Industry; Prices (Fares, Fees & Rates); Law & Legislation
Names: Schaefer, Dan; Schaefer, Dan (Repr); United States
Companies: House of Representatives-Energy & Power, Subcommittee on
Abstract: Congress opens hearings on bill, authored by Republican Repr Dan Schaefer, which would require states to let retail customers choose among competing electric companies by December 15, 2000; Schaefer holds first of series of cross-country hearings on bill in Atlanta (M)

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Article Text:

ATLANTA, April 14 -- Congress brought its newest venture in deregulation, to spur competition in the electricity industry, to the Southeast today and got advice ranging from 'full steam ahead' from consumers to 'reverse engines' from utilities and regulators.

Representative Dan Schaefer, chairman of the House Energy and Power Subcommittee and author of legislation to require states to let retail customers choose among competing electric companies by Dec. 15, 2000, warned the enthusiasts that the process would not be easy. And he cautioned worriers not to invent problems.

When consumers complained that only big customers got discounts now, Mr. Schaefer warned that moving too quickly could produce chaos if it precluded thinking through the problem of how to pay off the big 'stranded costs' accumulated by some power companies, especially those with heavy investments in nuclear power.

Customers pay those costs now under rules guaranteeing utilities a 'fair return on investment.' The Long Island Lighting Company, saddled with the inoperative Shoreham nuclear plant, has the highest rates on the United States mainland.

But when David Ratcliffe, senior vice president of the Southern Company, a holding company that owns power companies in Georgia, Alabama and Mississippi, argued that tampering with the existing structure would undermine reliability of service, Mr. Schaefer asked, 'Isn't the largest percentage of reliability problems coming from acts of God?'

'Yes, sir,' Mr. Ratcliffe said, conceding that storms were the cause of most downed power lines.

Mr. Schaefer snapped back, 'Nothing we pass is going to change His mind.'

Electricity deregulation, which would let consumers buy power from the cheapest source while having it transmitted, delivered and serviced by the existing local monopoly, is an important piece of the Congressional agenda, not least because it does not require Washington to spend money.

And while it will be months before House legislation takes shape, the basic idea has support from Democrats as well as Republicans. The chairman of the Commerce Committee, which has the bill, Representative Thomas J. Bliley Jr. of Virginia, earned a reputation for getting bills passed last

year when the Congressional mood turned from confrontation to legislation. Today's hearing was the first of four that Mr. Schaefer, a Colorado Republican, has scheduled around the country. He said he hoped to have his subcommittee vote out a bill in June and send it to the full committee for action in July.

The intense lobbying around the issue was evident in the packed hearing room. Many of those attending, with no detectable local accent, spent much of the day on cell phones to Washington, keeping their home lobbying offices up to date.

The day's first witnesses complained that in East Point, a nearby suburb, they paid nearly twice what customers paid in Atlanta, which is served by a different power company.

Leone Grizzard, a florist, complained that 'at one point our electrical bills have doubled our mortgage.'

Some worries came from Mr. Schaefer's colleagues. Representative Michael D. Crapo, a Republican from Idaho, where rates are among the lowest in the country, repeatedly asked witnesses if lower rates for customers like Ms. Grizzard would not mean higher costs for his constituents. He was assured from all sides that it would not, but he did not seem reassured.

Consumer Notes...

Competition Snap Shot

A snap shot of emerging competition in the once-monopolized local phone market: In Maryland, regulators recently gave AT&T the green light to offer local phone service to residential and business customers there, reports *The Washington Post*. The world's largest long-distance carrier wants to combine local and long-distance service in one bill for its customers.

AT&T plans to compete in the local phone market by purchasing capacity on the local phone company's networks at wholesale rates, then reselling it to consumers at a slight markup. The only question now is how much the current dominant local carrier, Bell Atlantic, should be allowed to charge AT&T for access to its lines.

Meanwhile, Bell Atlantic is turning back to old-fashioned copper wire (as opposed to new fiber-optic) technology to jump into the Internet access market. Bell Atlantic will offer this service in a trial run to Alexandria, Virginia, consumers in April—in direct competition with Jones Intercable, a cable TV provider which also will be offering Internet access. Jones also plans to offer local phone service to compete directly with Bell Atlantic.

ValuJet Marches On

Undaunted by being frozen out of New York's LaGuardia Airport recently (see "Consumer Notes," January 1996), low-price airline ValuJet has added service from its Atlanta hub to both Charlotte and Pittsburgh, striking deeply into USAir territory, reports the *Post*.

Fares on the two new ValuJet routes will be as little as \$39 one-way to Charlotte and \$59 one-way to Pittsburgh with a 21-day advance purchase. The best current Atlanta-Charlotte fare

on both USAir and Delta is \$253 round-trip. The best current Atlanta-Pittsburgh fare is \$336 round-trip, although USAir has a \$221 fare good on only Saturday and Sunday.

This latest move seems certain to prompt USAir and Delta to lower their fares; spokesmen for both airlines say they will compete "aggressively" on the routes.

This development follows a new trend in the airline industry noted recently by *The Wall Street Journal*, in which large carriers who were formerly impregnable in fortress-like regional hubs are finding themselves vulnerable to "sniping" from low-cost competitors like ValuJet and Southwest. Indeed, Southwest recently announced plans to bring its low-fare competition to the Northeastern market for the first time.

The new competition saved consumers \$1 billion in air fares last year, the Department of Transportation estimates (see "Cheaper To Fly Than To Drive?" CR, August 1994).

Cheaper Electricity?

* The Rhode Island legislature is considering an electricity deregulation bill that supporters say would cut consumer rates by at least 14% and could serve as a model for utility competition in other states, reports the *Journal*.

Dozens of states are moving to increase competition by eliminating electric-utility monopolies, but passage of deregulation legislation has so far been stymied by opposition from the utilities, who have billions of dollars invested in power plants in the expectation that future electric rates would be high enough to recover those costs.

* Supporters of the Rhode Island bill believe that their's is a compromise that will lower rates for households and large

corporations without hurting utilities, since they would be able to recover the costs of their plant investments with a three-cent-a-kilowatt-hour surcharge. The bill has broad, bipartisan support. (See also "How You Can Get Cheaper Power," CR, October 1994.)

No Rush To Up Speed Limits

Drivers long chafing under the 21-year-old, federally mandated 55-mph speed limit have had their joy at the repeal of that law late last year stifled as states move cautiously before increasing the limit.

Virginia recently voted down a proposal to increase the limit to 70-mph on state highways. Indiana has done likewise, and Illinois lawmakers, having raised the limit to 65-mph on some roads, recently rolled it back to 55 on many country and township roads.

Even in Montana, which with great fanfare abolished daytime limits for cars, is having second thoughts. *The New York Times* reports that initial state traffic statistics do not show the feared rise in auto fatalities, but that has not stopped authorities from increasing penalties sharply for "imprudent" driving (the new rule, though abolishing a set speed limit, requires "reasonable and prudent" speeds).

Moreover, a new push is under way in Montana, led by the governor's office, to impose limits of 70 and 75 mph. Initial studies show that 85% of traffic in Montana now travels at 74 mph or less—as opposed to the 72 mph average under the old limits. Those drivers now traveling 80 mph or more have increased by only 3%. "It's important to understand that things are not running amok on our roadway system," Albert E. Goke, safety director for the state traffic department, told the *Times* (see "Why Must Motorists Drive Only 55?" CR, November 1995).

—Kevin Blake

"re-engineered" the city's police department. To break down a rigid hierarchy in which police headquarters dictated every aspect of serious police work in New York's 76 precincts, Mr Bratton has devolved power to precinct commanders and is now pushing empowerment even further down the ranks. Ageing senior officers have been retired, cutting the average age of headquarters staff by almost 20 years.

And the way New York is policed has changed. Computerised crime statistics are compiled daily and used to spot areas where crime is on the rise; forces are then swiftly redeployed to stamp out the trouble. During regular sweeps and closures of brothels, gambling dens and drug houses, police officers are encouraged to make arrests for everything from minor felonies to possession of weapons. Beat officers are encouraged to tackle quality-of-life issues, such as graffiti and panhandling. Suspects arrested for minor crimes, claims Mr Bratton, are often perpetrators (or would-be perpetrators) of more serious offences. So, for that matter, are people on parole.

Even his most uncharitable critics now concede that Mr Bratton's "proactive policing" is at least in part responsible for the fall in New York's crime rate. But they also note that sheer weight of police numbers might have something to do with it. Between December 1990 and December 1995 the size of New York's police force increased by 45%, to 38,500. But Mr Bratton is swift to point out that the size of a police force does not generally correlate with success in crime-fighting. In recent years, among America's biggest cities, only New York and Houston have seen their per-capita murder rates fall as the number of police per capita has risen. In San Diego, both the murder rate and the police force have shrunk.

Young bloods

If Mr Bratton is right, and it is diligence rather than demographics that has wrought New York's murder miracle, demographics may yet take its revenge on the entire nation. A breeding blip among America's baby-boomers means that there are now some 40m children under ten who will soon become teenagers—the largest number in that age group for more than a generation. By the turn of the century, there could be 500,000 more male youths in America than there are today. And as about 6% of mid-teenage males turn out to be persistent felons, this means that some 30,000 additional young villains will be stalking America.

Worse, those young criminals are likely to be more vicious than ever. A study of juvenile crime by the Justice Department, released last September, forecasts that the number of arrests of 10-to-17-year-olds for violent crimes will double by 2010 if current trends continue. Arrest rates for weapon-related crimes by juveniles doubled between

1985 and 1993; they now make up a quarter of all such arrests. The number of murders committed by juveniles with guns rose five-fold over much the same period. And whereas adults aged 25 and over are now carrying out fewer murders than they did in the 1980s, the number of killings by youths in their mid-teens (14-to-17-year-olds, and mostly male) is soaring.

For more evidence of this coming kiddie crime wave, look no further than New York's schools. During the 1994-95 school year, 19,814 crimes were committed there, a rise of 16% on the previous year. This is a tide that the city's 3,000-strong school-security force (three officers, on average, per school) has been unable to stem. Putting his faith in Mr Bratton, Mayor Rudolph Giuliani has proposed what he hopes is a solution: set New York's police department in charge of school security. Mr Bratton may find that, compared with taking on Intermediate School 394 in Brooklyn, (the city's most crime-ridden, at the last count), busting Bronx crack-houses is child's play.

Electricity deregulation

A nasty shock

LOS ANGELES

IF FARMERS owned not only their crops and herds but also every food-processing plant and grocery shop in town, imagine what the price of food would be. Americans have paid a high price for allowing electricity utilities to become vertically integrated; and Californians have paid most of all. They pay twice as much for their electricity as their neighbours in Oregon, and half as much again as the national average.

On December 20th, after two years of an often rancorous debate, California's Public Utilities Commission (PUC) voted by a narrow margin to let the state's power-generating industry set electricity rates according to market forces rather than by public fiat. Power to the people? Not quite.

After road haulage, airlines, railways, telecommunications, banking and natural gas, electricity is the last of America's big old

Management brief: Servitude

THE American postal service, a wonder of bureaucratic frustration, often drives its workers to register their complaints with semi-automatic rifles. The mighty federal bureaucracies smother their staffs in layers of procedural tedium. One wonders whether America's federal government could be managed any worse. This week Washington boldly rose to the challenge.

Consider the government's four Modern Management Plans, in ascending order of interest:

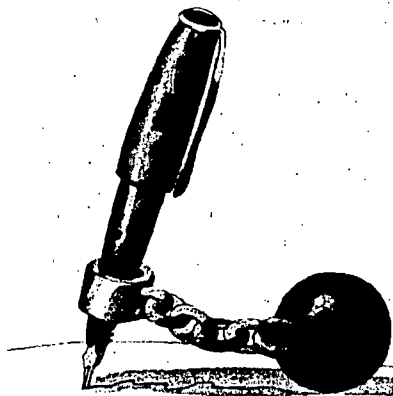
- **Work with pay.** This rather dull approach is the modern convention. However, amid coils of federal red tape and congressional micromanagement, this strategy tends to collapse into
- **Pay without work.** Or, more often, pay without effective work. Bureaucrats

do much but accomplish little. "Government reinventors" in the White House had hoped to fix this problem. Luckily, President Clinton and Congress saw that it could be solved at one blow by use of a bolder plan, namely

- **No work, no pay.** Unable to agree on a budget, they sent the whole government home on December 16th, where it would stay until everybody either rotted in their graves or agreed on how to cut the deficit, whichever came first. This had the advantage of simplicity, but passports were not issued, federal parks were not open, and, horrors, the Vermeer exhibition in Washington was shut, so people became scratchy. Bravely, Congress then proposed stepping where no McKinsey consultant would dare to tread, namely

- **Work without pay.** This scheme was once common in America, but caused a bit of a row in 1861. Bob Dole, the Senate's Republican leader, proposed sending workers back to work with pay, but that was deemed boring by Newt Gingrich, the House Republican leader. So the government has required "essential" employees—which includes a lot of them—to work without pay. Indignant unions took their objections to a judge, who on January 3rd sent them packing.

A budget agreement must surely be imminent. Now that Congress has exhausted all possible permutations of work and pay, what else is left to try?



monopoly industries to be deregulated. The PUC's deliberations in California have been watched closely by utilities, industrial users of electricity and consumer advocates across the country. As the first state to start dismantling the regulatory structure that has controlled power suppliers since the 1930s, California is certain to set the tone for electricity deregulation throughout America. At present, the omens for consumers are not good.

The recommendations that the commissioners in California voted for in December are much the same as those adopted when Britain deregulated its electric-power industry in 1990. As from January 1998, power generators in California will sell their electricity to a wholesale pool at a rate determined by supply and demand every half-hour or so. An independent body will run the transmission lines, which will remain the property of the power companies.

The aim is to provide customers with a bit of competitive choice. Under a compromise brokered by Pete Wilson, the Republican governor of California, customers will be able to buy electricity from their existing utility much as they do today, but at a basic rate governed by the pool's spot price. Alternatively, they will be able to sign hedging contracts with "repackagers", who buy electricity in bulk from the pool and offer it to consumers at a fixed rate, irrespective of the ups and downs of the wholesale price.

As a third option, customers will be able to strike individual "direct-access" agreements with the utility of their choice, with bigger discounts presumably being offered for longer contracts. From 1998, large electricity users and groups of smaller ones can purchase electricity from the cheapest source. Five years later, individual customers will be allowed to do the same.

It is not the delay that has outraged consumers in California; it is the PUC's overgenerosity to the power companies' shareholders at the ratepayers' expense. The utilities will be allowed to recover 100% of their "stranded" costs through a surcharge on top of their basic rates.

These additional charges cover investments that the utilities made in nuclear power in the 1970s, when oil prices shot up, which became uneconomic when fossil-fuel prices collapsed in the 1980s. They also cover the cost of having to buy expensive solar and wind power from independent producers, as part of the state government's alternative-energy plan.

Of the state's three big utilities, Southern California Edison has \$12.4 billion of stranded costs on its books, more than one-and-a-half times its market capitalisation. Pacific Gas & Electric, the nation's largest utility, has \$9.5 billion of stranded costs. A third of America's 113 investor-owned utilities are in a similar mess. Without some form of compensation, the utilities would



In lights, at a price

face financial ruin. Generously, the PUC has given the power companies in California until 2005 to recover all their stranded costs.

In exchange, California's major utilities have promised to lower their rates by 25% over the next five years. But consumers' expectations may be dashed when the utilities, no longer obliged by their political masters to hand individual ratepayers a hidden subsidy, find themselves at the beck and call of their corporate customers.

Alaskan fishing

Pollock overboard

SEATTLE

THE waters of the Bering Sea and the Gulf of Alaska are one of the great marine cornucopias. In an average year trawlers cruising these waters haul in an astounding 5.4 billion lb (2.4m tonnes) of salmon, pollock, crab, halibut and sole, more than half the total American catch. This is the largest single fishery in the world.

But a report by the Alaska Department of Fish and Game now shows that 750m lb of fish—too small, or the wrong species, or out of season—are casually thrown back into the water each year. The fish are dead by then, of course; the trauma of being netted, hauled from the depths and then dumped is almost invariably fatal. All told, perhaps 15% of the fish caught each year are discarded. The fishing industry says that this, though regrettable, does no great harm. But the true figure may be even higher. Because of possible errors in reporting this fish "by-catch", as it is called, and the inability of shipboard government observers to su-

pervise every bit of activity on a trawler, the actual wastage may exceed 1 billion lb, perhaps one-fifth of the total catch.

By some calculations, if the fish were not left to rot in the ocean they could provide 50m meals, enough to treat everybody in the states of California and New York to a fish fry. Even worse, the loss of these fish, coupled with heavy fishing in Alaskan waters, could lead this lucrative fishery down the same disastrous route that fishermen in the North Atlantic have sailed in the past two decades. There, catches of North Atlantic fish such as cod, haddock and yellowtail have plunged 85% since the mid-1960s, putting thousands of fishermen out of work and leaving some species of fish close to extinction.

In Alaska, say critics of the industry, supplies of pollock—which is used to make a fish paste called surimi—are fluctuating in a way that may indicate trouble in the years ahead. The number of mammals such as sea lions and harbour seals is dropping, perhaps because the fish they prey on are becoming scarce. The millions of dead fish floating around Alaskan waters may also be a source of pollution. Already fish waste from on-shore processing plants is several feet deep at some places on the sea bottom.

Policies aimed at preserving fish may actually encourage waste. In some cases fish that are out of season find their way into nets; because they cannot be legally taken on board, the fishermen toss them back. To end this absurdity, the North Pacific Fishery Management Council, which sets catch allocations, has ruled that fishing for one species must be halted if the trawler fleet's quota of illegal by-catch of another species is exceeded. But these restrictions do not seem to work; in spite of them, fish wastage has increased from 500m lb in 1992 to the current extraordinary levels.

The fishermen concerned are not necessarily ignorant or irresponsible; they are simply acting in their best economic interests. Even though there are limits on the number of fishing boats allowed, too many boats are still competing for fish. A skipper who fishes slowly and carefully risks hauling in fewer valuable fish than a skipper who fishes rapidly and sloppily. There is no incentive to keep cheap fish on board; they take up hold space that could otherwise be devoted to more valuable fish, or require expensive fish-meal processing equipment. According to Keith Criddell, an economist who has studied the fish-waste problem, wastage will continue until boat captains feel that their supplies of fish are secure.

The by-catch problem was at the top of the agenda of the fishery management council, which met in Anchorage in December. State officials hoped to persuade the industry to keep all fish that are caught, in the interests of greater efficiency, but got little more than promises to think about it. In

Electricity deregulation is shaking up the coal business, turning its major players into nimble, deal-hungry tigers.

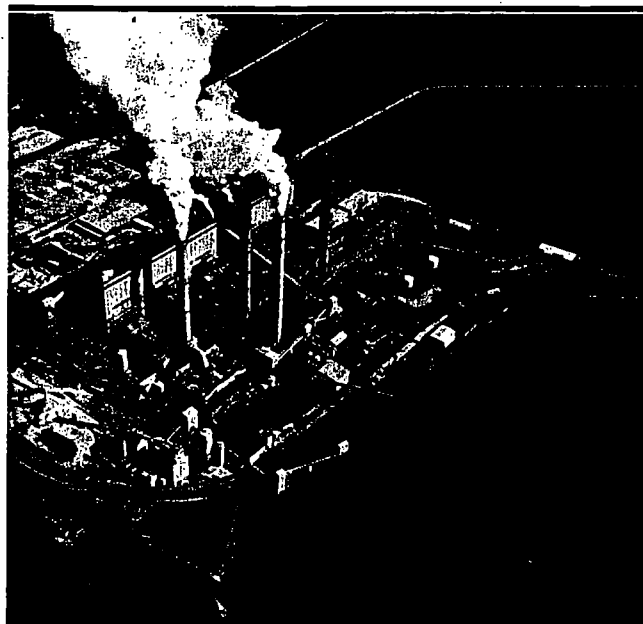
Coal on the Internet

By Toni Mack

"We extract a pound of flesh, a pint of blood and a first-born son," states Thomas Mason. This bloodthirsty talk comes from the fuel manager for Cincinnati's Cinergy Corp., a \$3 billion (1995 revenues) electric utility. Mason's intended victims are the companies that sell him coal.

Coal is in plentiful supply, and people like Mason are taking full advantage to drive down prices. Mason got a pound of flesh from Cyprus Amax Minerals Co. last year, when he forced prices so low on a 3.6-million-ton-a-year contract that Cyprus took a \$310 million write-down on the Indiana mine that serves Cinergy. Then it was Exxon's turn. The oil giant announced in July it would close a 3-million-ton-a-year Illinois mine that had supplied Cinergy rather than meet the utility's prices.

The \$20 billion coal industry counts on utilities for 80% of its business. This puts coal in a tight spot when utilities are being deregulated and subjected to price competition



One of Cinergy Corp.'s coal-fueled electric power plants
It gets cheaper and cheaper to run.

for the first time. Almost the first thing a squeezed industry does is squeeze its suppliers—and utilities are squeezing coal producers hard.

This is especially bad news for coal

producers with high-priced contracts expiring soon. The U.S.' third-largest producer, Consol Coal Group, owned 50-50 by DuPont and Germany's Rheinbraun AG, gets a highly profitable 10% of its revenues from contracts that are priced well above market and expire in the next few years. If Consol has to sell this coal at market prices, its entire net profit may be wiped out, says Ralph Barbaro of consulting firm Energy Ventures Analysis, Inc.

Some companies are simply getting out. Coastal Corp. is taking bids for its \$460 million (sales) coal unit. Other sales candidates, Barbaro says, are DuPont's Consol stake and the coal divisions of Exxon, Kerr-McGee and Sun Co.

But there are always survivors, and the survivors in coal will be the low-cost producers. These include Fluor Corp.'s \$767 million (revenues) A.T. Massey Coal Co. It operates mostly nonunion coal mines near populous eastern markets. Peabody Holding

Who loses as prices fall?

Coal producer/owner	1995 coal revenues (\$mil)	Sales to utilities (mills of tons per year)	Above-market contracts	Potential revenue loss (\$mil)
Peabody Holding/Hanson Plc	\$2,100	123.5	6.2	\$70
Consol Coal Group/DuPont & Rheinbraun AG	2,000	50.2	14.2	220
Cyprus Amax Coal/Cyprus Amax Minerals	1,300	62.0	16.4	169
Arco Coal/Atlantic Richfield	762	46.3	5.4	38
Zeigler Coal Holding/publicly traded	754	29.6	5.4	62
Arch Mineral/Ashland Inc & Hunt family	730	24.5	7.3	64
Drummond/privately held	725	24.4	2.0	31
Interwest Mining/PacificCorp	447	21.1	0	0
Kennecott Energy/RTZ Corp	377	36.1	3.7	28
Kerr-McGee Coal/Kerr-McGee	353	26.2	5.2	33

*Approximate

Sources: Energy Ventures Analysis, Inc.; companies

Most big coal producers have high-priced sales contracts expiring by 2002. Selling the coal at current market prices would slice millions from their revenues.



PATIENT INFORMATION ABOUT CARDURA®

Generic Name:

doxazosin mesylate

FOR BENIGN PROSTATIC HYPERPLASIA (BPH)

Read this information:

- before you start taking CARDURA®
- each time you get a new prescription.

You and your doctor should discuss this treatment and your BPH symptoms before you start taking CARDURA® and at your regular checkups. This information does NOT take the place of discussion with your doctor.

CARDURA® is used to treat both benign prostatic hyperplasia (BPH) and high blood pressure (hypertension). This information describes CARDURA® as treatment for BPH (although you may be taking CARDURA® for both your BPH and high blood pressure).

What is BPH?

BPH is an enlargement of the prostate gland. This gland surrounds the tube that drains the urine from the bladder. The symptoms of BPH can be caused by a tensing of the enlarged prostate gland which blocks the passage of urine. This can lead to such symptoms as:

- a weak or start-and-stop stream when urinating
- a feeling that the bladder is not completely emptied after urination
- a delay or difficulty in the beginning of urination
- a need to urinate often during the day and especially at night
- a feeling that you must urinate immediately.

Treatment Options for BPH

The four main treatment options for BPH are:

- If you are not bothered by your symptoms, you and your doctor may decide on a program of "watchful waiting." It is not an active treatment like taking medication or surgery but involves having regular checkups to see if your condition is getting worse or causing problems.
- Treatment with CARDURA® or other similar drugs. CARDURA® is the medication your doctor has prescribed for you. See "What CARDURA® Does," below.
- Treatment with the medication class of 5-alpha reductase inhibitors (e.g. Proscar®). It can cause the prostate to shrink. It may take 6 months or more for the full benefit of finasteride to be seen.
- Various surgical procedures. Your doctor can describe these procedures to you. The best procedure for you depends on your BPH symptoms and medical condition.

What CARDURA® Does

CARDURA® works on a specific type of muscle found in the prostate, causing it to relax. This in turn decreases the pressure within the prostate, thus improving the flow of urine and your symptoms.

- CARDURA® helps relieve the symptoms of BPH (weak stream, start-and-stop stream, a feeling that your bladder is not completely empty, delay in beginning of urination, need to urinate often during the day and especially at night, and feeling that you must urinate immediately). It does not change the size of the prostate. The prostate may continue to grow; however, a larger prostate is not necessarily related to more symptoms or to worse symptoms. CARDURA® can decrease your symptoms and improve urinary flow, without decreasing the size of the prostate.
- If CARDURA® is helping you, you should notice an effect within 1 to 2 weeks after you start your medication. CARDURA® has been studied in over 900 patients for up to 2 years and the drug has been shown to continue to work during long-term treatment.

Even though you take CARDURA® and it may help you, CARDURA® may not prevent the need for surgery in the future.

- CARDURA® does not affect PSA levels. PSA is the

abbreviation for Prostate Specific Antigen. Your doctor may do a test called PSA. You may ask your doctor more about this if you have a PSA test.

Other Important Facts

- You should see an improvement of your symptoms within 1 to 2 weeks. In addition to your other regular checkups you will need to continue seeing your doctor regularly to check your progress regarding your BPH and to monitor your blood pressure.
- CARDURA® (doxazosin mesylate) is not a treatment for prostate cancer. Your doctor has prescribed CARDURA® for your BPH and not for prostate cancer; however, a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). A higher incidence of prostate cancer has been noted in men of African-American descent. These checks should continue even if you are taking CARDURA®.

How To Take CARDURA® and What You Should Know While Taking CARDURA® for BPH

CARDURA® Can Cause a Sudden Drop in Blood Pressure After the VERY FIRST DOSE. You may feel dizzy, faint or "light-headed," especially after you stand up from a lying or sitting position. This is more likely to occur after you've taken the first few doses or if you increase your dose, but can occur at any time while you are taking the drug. It can also occur if you stop taking the drug and then restart treatment. If you feel very dizzy, faint or "light-headed" you should contact your doctor. Your doctor will discuss with you how often you need to visit and how often your blood pressure should be checked.

Your blood pressure should be checked when you start taking CARDURA® even if you do not have high blood pressure (hypertension). Your doctor will discuss with you the details of how blood pressure is measured.

Blood Pressure Measurement: Whatever equipment is used, it is usual for your blood pressure to be measured in the following way: measure your blood pressure after lying quietly on your back for five minutes. Then, after standing for two minutes measure your blood pressure again. Your doctor will discuss with you what other times during the day your blood pressure should be taken, such as two to six hours after a dose, before bedtime or after waking up in the morning. Note that moderate to high-intensity exercise can, over a period of time, lower your average blood pressure.

You can take CARDURA® either in the morning or at bedtime and it will be equally effective. If you take CARDURA® at bedtime but need to get up from bed to go to the bathroom, get up slowly and cautiously until you are sure how the medication affects you. It is important to get up slowly from a chair or bed at any time until you learn how you react to CARDURA®. You should not drive or do any hazardous tasks until you are used to the effects of the medication. If you begin to feel dizzy, sit or lie down until you feel better.

- You will start with a 1 mg dose of CARDURA® once daily. Then the once daily dose will be increased as your body gets used to the effects of the medication. Follow your doctor's instructions about how to take CARDURA®. You must take it every day at the dose prescribed. Talk with your doctor if you don't take it for a few days for some reason; you may then need to restart the medication at a 1 mg dose, increase your dose gradually and again be cautious about possible dizziness. Do not share CARDURA® with anyone else; it was prescribed only for you.
- Other side effects you could have while taking CARDURA®, in addition to lowering of the blood pressure, include dizziness, fatigue (tiredness), swelling of the feet and shortness of breath. Most side effects are mild. However, you should discuss any unexpected effects you notice with your doctor.
- Keep CARDURA® and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT CARDURA® AND BPH TALK WITH YOUR DOCTOR, NURSE, PHARMACIST OR OTHER HEALTH CARE PROVIDER.

PFIZER, INC

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U.S. Pharmaceuticals Group

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Co., a unit of U.K.-based Hanson Plc., is the U.S.' biggest coal miner. It owns low-cost mines in the East and in Wyoming's Powder River Basin. Peabody and Cyprus Amax are potential buyers of the properties that are for sale.

The bright side is this: As coal prices get forced down, coal becomes more competitive against oil and gas as a raw material for electricity. Zeigler Coal Holding Co. Chief Executive Chand Vyas points out that the average coal-fired power plant now runs at just 60% of capacity. As coal prices come down, it makes sense for utilities to use more of this capacity and less from their oil- and gas-burning plants. Says Vyas: "The coal industry could sell up to 250 million more tons a year [over 1995's 816

The average coal-fired power plant now runs at just 60% of capacity.

million] if we help utilities use their unused coal-burning capacity."

With deregulation in electricity, it begins to make sense for raw-materials producers to combine with electricity producers. Peabody recently registered with federal authorities to begin marketing electricity from plants with surplus capacity. Zeigler Coal has teamed with Northern States Power to bid just over \$1 billion for Louisiana's bankrupt Cajun Electric Power and its 1,479 megawatts of coal-fired capacity. "We want to acquire coal-fired generating plants around the world," reports Peabody Chairman Irl Engelhardt. Predicts PaineWebber coal analyst Marc Cohen: "You'll see more and more deals between coal producers and power-generators."

And so, even in the venerable old coal business, things happen faster these days. The New York Mercantile Exchange is trying to concoct a coal futures contract. In the somnolent old days, coal buyers had to trudge to Washington and scrutinize a federal form to see how much other utilities had paid for coal. Now Peabody posts sales prices for four grades of coal on the Internet, updated weekly. That's right, the Internet.

Forbes ■ September 9, 1996

ENERGY

Chances for Quick Action On Deregulation Fading

Constituent concerns prompt lawmakers to urge caution, while business interests shift to hardball mode

When the drive to deregulate the nation's electricity industry began earlier this year, it was an issue conceived, articulated and pushed by Washington lobbyists for affected national business interests.

These lobbyists implied that passing a deregulatory bill would be easily achieved, perhaps by the end of 1997.

But as members of Congress hear views on the issue from constituents and local businesses, the picture is changing. And the effort to enact an electricity overhaul bill — recently portrayed as a slam dunk for the 105th Congress — is beginning to look more like a gathering battle royal.

Look, for example, at the Republican leadership of the House Commerce Subcommittee on Energy and Power, which will have initial jurisdiction on any deregulatory legislation.

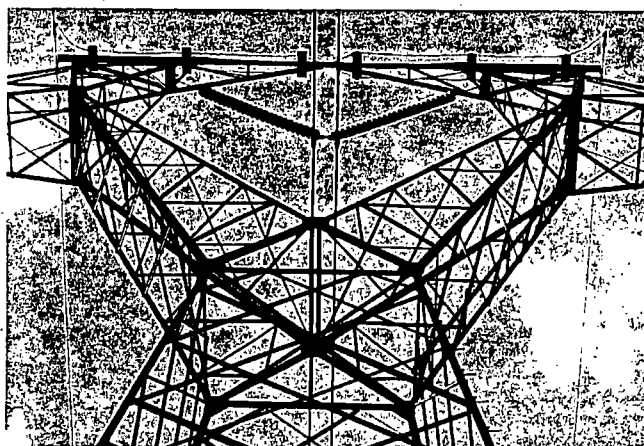
The chairman, Rep. Dan Schaefer of Colorado, is among the advocates of deregulation who hail it as potentially a great boon to the American economy — spurring competition, lowering electricity prices, creating jobs.

But Rep. Michael D. Crapo, the subcommittee's second-ranking Republican, and his Idaho constituents have worries about deregulation.

They want to know what is to become of the giant network of federally owned power plants that have held down the price of electricity in the Pacific Northwest for decades.

They fear that deregulation will raise electricity and irrigation costs in states blessed with the nation's cheapest power, and hurt endangered fish tended by the hydroelectric operators.

"If we can find a solution that addresses the issues I've raised, we may be able to make significant progress,"



said Crapo. But if the bill will not be beneficial to Idaho and his region, Crapo added, "I would be willing to hold this thing back."

Crapo's cautionary message is a far cry from the banzai shouts for deregulation at the end of the 104th Congress. The GOP's champions of electricity competition — House Speaker Newt Gingrich of Georgia, Majority Whip Tom DeLay of Texas, Commerce Committee Chairman Thomas J. Bliley Jr. of Virginia and Schaefer — intimated it would be easy.

Such predictions are now harder to come by. "The battle grounds are being met because it's now a reality," said Peggy Welsh, executive director of the Electric Generation Association.

First Shots

When Schaefer unveiled legislation in July to restructure the electricity industry, all interested parties expressed their gratitude. The bill (HR 3790) would have given all states until Dec. 15, 2000, to implement retail competition in the electricity industry. If they failed, the Federal Energy Regulatory Commission would do it for them. (*Background, Weekly Report*, p. 2911)

Deregulation proponents — led by natural gas giant Enron Corp., other power-plant fuel producers and indus-

trial electricity users — hailed Schaefer's bill as a workable vehicle for their drive to retail competition.

Even Schaefer's opponents, including heavily indebted investor-owned utilities that stand to lose billions in a cold-turkey deregulation, praised the bill as a good start.

That veneer of good will has worn thin. Almost no group says it opposes electricity competition, but the caveats to their support are proliferating.

Utility officials now say Schaefer and his staff locked them out of the drafting of the bill and alienated corporations they need on board.

Edison Electric Institute, the lobbying arm of the utilities, brought on two union consultants to enlist labor to the cause of slowing deregulation.

The International Brotherhood of Electrical Workers is now asserting that deregulation proposals would cost thousands of jobs and jeopardize the reliability of the electrical system.

Utility officials have exhorted their shareholders to write their congressmen and express concern that deregulation would bankrupt them.

Schaefer retaliated in October with a "Dear Colleague" letter that suggested shareholders dump their utility stocks. William D. Steinmeier, national chairman of the utility-backed Electric Utility Shareholders Alliance, fired back with a 12-page tirade to Congress, blasting Schaefer's "blame-shifting and finger-pointing."

Lobbying has been intense and personal. Patricia A. Schaub, director of federal governmental affairs for Southern utility Entergy Services Inc., gave a baby shower for Mary O'Driscoll, a reporter at the Energy Daily newsletter who has covered the issue. Executives of Enron gave her a bassinet stuffed with toys and clothes.

By Jonathan Weisman

An Unusual Coalition

Even in politics' world of strange bedfellows, the budding bond among environmentalists, Rep. Frank Pallone Jr., D-N.J., and Public Service Electric and Gas Co. of New Jersey is an unusual threesome.

The utility owns a major stake in five nuclear power reactors, four of which have been denounced by environmentalists as "nuclear lemons."

Yet for now, environmentalists are willing to overlook such disputes to tackle a common problem: electricity deregulation.

To environmentalists, deregulation is a threat to health. Without special legislative precautions, they say, deregulation will spur increased productivity by coal-burning plants in the Midwest that will send a wave of air pollution to the Northeast.

To the utility officials, the increased competition they would face is an assault on their bottom line.

To Pallone — the ranking Democrat on the House Commerce Energy and Power Subcommittee, which has jurisdiction over electricity deregulation — two key home-state constituencies are under siege, and for once, they are on the same side of an issue.

"You know Washington. There are no permanent friends and no permanent enemies," said Dan Lashof, a senior scientist at the Natural Resources Defense Council, an environmental organization.

The partners in this New Jersey coalition are demanding that the Clean Air Act be reopened to address unresolved pollution issues before any electricity legislation is enacted.

For the environmentalists and Pallone, the stakes are high. Revisiting the law might provide an opening for conservatives led by House Majority Whip Tom



Pallone



Boucher

DeLay, R-Texas, who blames rules under the Clean Air Act for damaging the U.S. economy and has proposed repealing the law.

Yet the environmentalists insist they are willing take their chances with a Republican Congress.

"This is a once-in-a-generation opportunity to deal with the old clean-air problems of power generation," said Lewis Milford, director of the energy project at the Boston-based Conserva-

tion Law Foundation, an environmentalist group that focuses on pollution issues in New England.

Standing in their way is one of their usual allies: Edward J. Markey, D-Mass., a member of the House Commerce Committee. Markey sees the issue as a ruse by high-cost utilities to either slow the legislation or raise the costs of their competitors' power.

If environmentalists want to deal with the issue of Northeastern air pollution, he says, they should take it up with the Environmental Protection Agency, not a Republican Congress.

Another front is defended by members of Congress with coal interests in their states and districts — including coal-burning utilities, which say they are complying with environmental regulations to limit emissions of sulphur dioxide and nitrogen oxide.

Coal defenders include powerful Democrats, such as Sen. Robert C. Byrd of West Virginia, who have little patience for the issue.

Another is Rep. Rick Boucher, D-Va., who recently joined the Energy and Power Subcommittee. "There's not going to be a reopening of the Clean Air Act, period," he said. "That's not even open for discussion."

—Jonathan Weisman

Commerce Committee Counsel Catherine G. Van Way, who was instrumental in drafting Schaefer's bill, has even received what amount to crank calls from lobbyists who told her she had been fired.

Family Feuds

The battle lines forming for the upcoming fight are ragged, cutting across regional and partisan boundaries.

It is unusual to find Schaefer and Crapo, both Mountain West conservatives, on opposing sides. Crapo did say Schaefer has been open to his regional concerns on deregulation, and he hopes they can compromise.

But in a Nov. 18 speech to the National Association of Regulatory Utility Commissioners, Schaefer dismissed criticisms of deregulation — many of which conform with Crapo's

concerns — as utility scare tactics.

A similar chemistry is at work on the Democratic side. Rep. Rick Boucher just joined the Energy and Power Subcommittee, in part to defend coal interests in his Virginia district during the electricity restructuring battle.

He has pitted himself against Frank Pallone Jr. of New Jersey, the ranking Democrat on Energy and Power, who is worried about deregulated coal-fired power plants in the Midwest polluting the air in the Northeast.

Pallone, in turn, is at odds with Edward J. Markey, D-Mass., a fellow Northeasterner who sees the pollution issue as an unnecessary obstacle to deregulation. (Story, this page)

In the Senate, the lines are even more muddled. Frank H. Murkowski, R-Alaska, chairman of the Senate Energy and Natural Resources Commit-

tee, has expressed little enthusiasm for electricity deregulation.

Dale Bumpers, D-Ark., is preparing a bill to restructure the industry, but is driven more by a desire to protect small consumers than to open electricity to the free market.

Ellen Berman, who as executive director of the Consumer Energy Council of America Research Foundation is pursuing consensus among those in the debate, is preparing for the long haul.

Publicly, Hill staff members still say they think they can get legislation at least through the House in 1997. Privately, Berman said, they do not expect movement to even begin at the subcommittee level until 1998.

"We thought it'd be a one-year project," she said. "Well, it's not going to happen in a year. We're not going to have legislation for two years or more." ■

ELECTRIC UTILITIES

To clear the way for a more competitive market in electricity, some states are compensating local utilities for uncompetitive assets.

By Toni Mack

This will be a showdown year in Congress over electricity deregulation. A bill introduced by U.S. Representative Dan Schaefer of Colorado orders states to open their electricity markets to full competition by Dec. 15, 2000. Low-cost utilities like LG&E Energy, Cinergy and PacifiCorp welcome the prospect and are pushing hard for it.

But don't expect the high-cost utilities to succumb without extracting compensation. Last year, bowing to threats of utility job losses and even bankruptcies, California and Pennsylvania legislators agreed to bail utilities out of nuclear power plants and other high-cost assets so

that they would have a better chance of competing in the new, open markets. California, for example, will issue \$5 billion in tax-exempt bonds this year to compensate Pacific Gas & Electric, Edison International and other local utilities for such uncompetitive assets. The bonds will be repaid from a ten-year surcharge on electricity customers' bills. Pennsylvania passed a similar bill that will benefit PECO Energy and others. New York, Illinois and Michigan are considering compensation plans to help companies like Consolidated Edison, Unicom and DTE Energy.

Without such compensation these high-cost utilities



Electric utilities	Profitability			Growth				Sales	Net income	Profit margin	Debt/capital
	Return on capital		Return on equity latest 12 mos %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %	latest %
	5-year average %	latest 12 mos %		5-year average %	latest 12 mos %	5-year average %	latest 12 mos %				
Company											
Northeast											
Consolidated Edison	8.0	7.1	12.3	2.8	6.0	5.7	-2.4	6,856	687	10.0	32.6
Commonwealth Energy	7.4	8.8	15.7	3.3	9.9	21.5	36.5	999	63	6.3	37.6
Pub Svc Enterprise	7.0	6.3	11.7	5.2	0.9	6.8	-0.4	6,024	637	10.6	33.3
GPU	6.9	5.8	9.7	4.3	5.6	NM	-34.9	3,924	287	7.3	36.5
New England Electric	6.9	6.8	12.9	3.6	3.8	-2.8	9.4	2,335	211	9.0	37.4
Allegheny Power	6.7	6.0	10.5	2.7	-9.2	1.8	-4.6	2,339	224	9.6	39.1
Delmarva Power & Lt	6.6	6.2	11.4	4.6	10.5	18.5	-2.3	1,076	114	10.6	33.7
PECO Energy	6.5	5.8	11.0	1.9	6.2	NM	-16.7	4,314	519	12.0	32.7
Boston Edison	6.5	6.5	11.2	5.3	1.6	5.9	-6.9	1,645	127	7.7	36.9
Atlantic Energy	6.4	5.2	8.5	5.8	4.9	NM	14.9	976	69	7.1	38.1
American Water Work	6.4	6.0	8.6	7.0	10.2	5.8	-1.1	873	98	11.3	47.5
Orange & Rockland	6.3	5.9	10.9	10.4	-8.9	-3.9	21.3	955	44	4.6	36.1
Baltimore G&E	6.2	6.6	11.5	5.8	11.5	11.8	10.6	3,145	365	11.6	36.4
Northeast Utilities	6.2	4.0	5.9	8.2	4.6	NM	-50.2	3,836	142	3.7	42.8
PP&L Resources	6.1	6.1	13.3	0.5	8.7	NM	50.0	2,906	346	11.9	35.3
Long Island Lighting	6.0	5.6	10.5	5.3	6.3	-1.0	12.5	3,163	313	9.9	44.0
Rochester G&E	6.0	5.4	8.8	4.5	6.1	NM	-26.9	1,050	75	7.1	33.7
New York State E&G	5.9	5.7	9.8	6.3	3.6	NM	-7.0	2,061	184	8.9	34.0
Niagara Mohawk Pwr	5.7	4.3	5.0	5.2	0.4	21.1	22.5	3,986	164	4.1	43.4
Potomac Electric	5.7	6.0	11.7	5.1	0.7	-12.2	166.7	1,957	235	12.0	46.6
Central Maine Power	4.3	4.8	8.3	3.0	5.6	-12.7	D-P	952	50	5.3	34.8
Medians	6.4	6.0	10.9	5.1	5.6	-2.8	-0.4	2,335	184	9.0	36.5
North central											
DPL	8.3	8.0	15.5	6.1	3.4	4.0	5.0	1,275	170	13.4	37.1
Wisconsin Energy	7.6	7.5	12.0	4.2	1.7	NM	-6.0	1,764	223	12.7	34.6
Union Electric	7.2	6.9	13.1	0.5	8.0	1.0	3.8	2,248	316	14.1	29.6
Nipsco Industries	7.2	7.6	15.8	2.7	-5.0	8.7	7.1	1,766	177	10.0	37.7
WPL Holdings	7.1	7.5	12.1	6.5	13.9	-3.4	18.8	901	72	8.0	30.8
DTE Energy	7.1	5.1	8.9	NM	1.5	-5.1	-27.2	3,625	306	8.4	39.7
No States Power	6.9	6.6	11.9	4.7	2.9	6.0	-6.4	2,597	254	9.8	33.4
Western Resources	6.7	5.5	10.6	8.2	26.4	6.9	4.4	1,939	183	9.4	31.4

D-D: Deficit to deficit, D-P: Deficit to profit, P-D: Profit to deficit, def: Deficit, NA: Not available, NC: Negative capital, NE: Negative equity, NM: Not meaningful *Four-year average
†Three-year average. For further explanation, see page 93

Sources: Forbes, Value Line via OneSource Information Services

would find it difficult to compete in an open environment. With competition looming you can expect more mergers between power companies and natural gas outfits, such as Duke Power's agreement to pay nearly \$8 billion for PanEnergy and Enron's planned \$2.3 billion merger with Portland General. Explains Duke Chairman William Grigg: "Customers are demanding total energy services."

In this connection Morgan Stanley utilities analyst Kit Konolige cites Southern Co., Pacific Gas, PacifiCorp, Cinergy and Entergy as likely buyers of gas companies.

Whether the pace of competition will slow or gather speed rests on Congress in 1997. "All eyes will be on Washington," predicts Roger Hale, chairman of Louisville, Ky.'s LG&E Energy.

Electric utilities	Profitability			Growth				Sales	Net income	Profit margin	Debt/capital
	Return on capital		Return on equity latest 12 mos %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %	latest %
	5-year average %	latest 12 mos %		5-year average %	latest 12 mos %	5-year average %	latest 12 mos %				
Company											
CipSCO	6.7	6.2	11.2	4.5	4.1	3.2	-12.2	873	73	8.4	27.2
IES Industries	6.6	5.5	9.2	6.6	9.0	NM	-12.4	904	57	6.3	42.3
American Electric	6.4	6.8	13.5	2.2	5.4	NM	15.9	5,829	586	10.1	37.2
Cinergy	6.3	7.3	13.4	3.6	7.2	NM	34.0	3,151	341	10.8	36.9
DQE	6.1	6.6	13.4	1.3	0.3	7.3	5.0	1,221	177	14.5	37.2
Kansas City P&L	5.8	5.7	12.0	1.8	3.8	4.0	-6.5	907	112	12.3	32.6
MidAmerican Energy	5.8	5.6	10.5	4.6	4.7	NM	11.3	1,758	138	7.9	38.5
Ohio Edison	5.5	6.4	13.3	1.6	2.5	5.1	2.9	2,475	318	12.9	36.5
CMS Energy	5.2	7.3	14.9	6.1	13.0	NM	5.8	4,219	234	5.6	51.7
Unicom	4.9	5.6	10.8	3.6	1.3	53.8	-8.8	6,881	627	9.1	34.8
Illinova	4.3	5.8	11.0	2.4	2.0	NM	-4.3	1,656	174	10.5	34.2
Centerior Energy	3.4	4.7	6.5	NM	0.7	-5.1	-43.1	2,523	128	5.1	43.2
Medians	6.5	6.5	12.0	3.6	3.9	-1.2	3.4	1,853	180	9.9	36.7
Southeast											
TECO Energy	7.9	8.7	15.7	5.1	4.0	4.2	14.4	1,438	195	13.6	35.0
Duke Power	7.7	7.5	13.8	5.2	2.8	6.1	-0.9	4,707	704	15.0	30.5
Southern Co	7.4	6.3	13.1	2.4	15.8	9.2	1.2	10,179	1,148	11.3	29.7
Carolina Power & Lt	6.9	6.7	14.2	2.7	3.3	5.3	9.4	3,022	377	12.5	33.9
FPL Group	6.6	7.5	13.0	1.3	8.0	17.5*	3.2	5,963	569	9.5	32.0
LG&E Energy	6.6	6.5	11.0	11.8	182.4	3.8	-15.0	2,987	86	2.9	34.8
Scana	6.5	7.5	13.5	4.1	9.2	-4.9	29.5	1,471	211	14.3	39.0
Florida Progress	6.5	6.9	10.9	9.3	4.1	3.1	-6.4	3,114	226	7.3	38.7
Dominion Resources	6.5	5.9	9.4	6.0	5.7	-2.4	3.3	4,782	447	9.4	39.0
Medians	6.6	6.9	13.1	5.1	5.7	4.2	3.2	3,114	377	11.3	34.8
South central											
Houston Industries	8.3	5.6	9.0	NM	7.1	19.6	-66.6	3,926	372	9.5	31.0
Southwestern PS	8.3	7.7	14.3	4.2	7.8	NM	-10.0	899	106	11.8	36.0
Oklahoma G&E	7.1	7.3	13.7	1.3	4.6	NM	4.6	1,360	131	9.6	34.3
Central & So West	6.6	6.7	12.9	6.4	53.2	NM	0.9	5,299	432	8.2	39.6
Entergy	5.6	4.7	5.9	10.6	16.6	-6.5	-17.6	7,020	385	5.5	40.1
Texas Utilities	4.0	6.8	13.4	4.7	13.5	NM	D-P	6,350	766	12.1	45.1
Medians	6.9	6.8	13.2	4.5	10.7	NM	-4.5	4,613	379	9.6	37.8
Western											
Enova	7.7	8.3	15.4	1.8	0.4	NM	5.2	1,913	235	12.3	38.5
Public Service Colo	7.5	7.4	13.1	4.3	-0.7	1.5	4.5	2,107	189	9.0	36.2
Pacific G&E	7.4	5.6	9.1	0.9	-8.8	4.8	-30.3	9,137	833	9.1	36.6
Puget Sound P&L	6.9	6.2	10.1	5.6	-1.1	-4.6	2.2	1,172	133	11.4	33.0
Edison International	6.4	6.0	11.6	3.1	0.1	-2.0	1.8	8,401	738	8.8	36.6
Montana Power	6.3	4.8	6.6	2.6	-2.7	-9.6	-34.1	948	72	7.6	29.2
PacifiCorp	6.0	6.9	12.6	-2.5	17.9	NM	-1.2	4,009	500	12.5	44.2
Pinnacle West	5.8	6.2	12.5	1.9	7.4	9.1†	7.6	1,785	236	13.2	37.3
Portland General	5.4	7.4	15.6	2.9	11.3	-4.9†	102.2	1,076	140	13.0	34.2
Hawaiian Electric	5.3	5.5	7.9	4.7	7.1	NM	-14.7	1,374	73	5.3	39.2
Public Service NM	3.8	6.1	9.2	NM	0.4	NM	-20.2	841	65	7.7	44.1
Medians	6.3	6.2	11.6	2.6	0.4	-4.9	1.8	1,785	189	9.1	36.6
Industry medians	6.5	6.2	11.6	4.2	4.9	-2.8	1.8	2,248	211	9.6	36.5
All-industry medians	9.8	9.6	13.0	7.2	8.1	-4.9	6.4	1,860	86	4.6	32.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. del: Deficit. NA: Not available. NC: Negative capital. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 93.

Sources: Forbes; Value Line via OneSource Information Services.

LEVEL 2 - 177 OF 178 STORIES

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May 1, 1997 Thursday, NORTH SPORTS FINAL EDITION

SECTION: COMMENTARY; Pg. 27; ZONE: N

LENGTH: 666 words

HEADLINE: POISED FOR **POWER** PLAYS;
NUCLEAR PLANTS WILL HARNESS LOSSES AFTER **DEREGULATION**

BYLINE: By Frank Clemente.; Frank Clemente is sociology professor at Penn State University.

BODY:

Deregulation of the electric utility industry is being considered in an increasing number of states, as well as in Congress. In Illinois, a number of restructuring plans have been proposed in the General Assembly and several retail wheeling experiments have been approved by the Illinois Commerce Commission. Commissioner Ruth Kretschmer has posited that **electric** competition in Illinois is inevitable.

Without question, the most difficult restructuring issue facing legislators and regulators in Illinois is what to do with stranded costs--long-term investments the state's utilities have made in nuclear plants which might be unprofitable if Illinois is opened to competition in the near future. With recent increases in technology, new **power** producers and utilities might well be able to undersell the nuclear plants in Illinois. In such a case, estimates by Moody's Investor Service indicate that the stranded costs could range as high as \$6 billion in Illinois alone.

Utilities point out that they built nuclear **power** plants in good faith to serve their customers and should be permitted to recover their investment.

First, all 13 nuclear plants in Illinois were ordered before 1979 and were approved by state and federal regulatory agencies as necessary for utilities to meet their obligation to serve Illinois customers. Take, for example, the 1973 order from the ICC regarding Commonwealth Edison's Braidwood Nuclear **Power** Plant: "The record indicates that without the construction of additional generating facilities . . . the Edison system . . . will be inadequate to meet estimated peak demands and . . . public convenience and necessity require the construction . . . of the Braidwood Station . . ."

Second, during the 1980s virtually every nuclear plant was reviewed again by regulators making sure all expenses were reasonable. Those prudence reviews cost utilities upwards of \$20 billion nationwide and more than \$1 billion in Illinois.

Third, when these plants were proposed in the 1970s they were widely seen as helping this nation solve an energy problem. Anyone who lived through the '70s remembers that reliable fuels for **power** plants were in real jeopardy. In



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projecting significant price increases and gas shortages by the '80s, C.J. Gauthier, president of Northern Illinois Gas, said in 1973 that "nuclear energy simply has to provide a greater share of requirements in the years ahead."

And, it must be noted, similar calls for the construction of nuclear **power** plants came from important Illinois businesses. Consider, for example, 1974 testimony before the Federal Energy Administration by Thomas H. Coulter, chief executive officer of the 5,000-member Chicago Association of Commerce and **Industry**: "The development of electric **power** through the use of atomic energy which has proven safe and effective in the Chicago area should be accelerated with every effort being made to put these plants in operation."

Now that utilities have invested billions of dollars in response to such urgings it simply will not do for formerly ardent supporters of nuclear **power** to look bewildered and say, "Who? Me?"

~~X~~ The sad irony of all this is that the main argument opposing stranded-cost recovery--that nuclear **power** plants were poor investments--~~X~~ is wrong. And, Illinois is the perfect proof. For almost a generation now ~~X~~ nuclear plants have improved air quality in our cities and water quality in rural areas by serving as a substitute for coal. ~~X~~ They have displaced millions of barrels of oil and trillions of cubic feet of natural gas. ~~X~~ They have provided a reliable source of electricity.

~~X~~ Today, nuclear plants produce more than ~~X~~ 54 percent of the electricity in Illinois. Far from being poor investments, ~~X~~ these units have more than paid their share in terms of stability, environmental quality and fuel diversification in the Midwest--exactly what Illinois regulators and rate payers had in mind more than two decades ago.

GRAPHIC: GRAPHICGRAPHIC: Illustration by Paul Lachine.

LANGUAGE: ENGLISH

LOAD-DATE: May 1, 1997



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LEVEL 2 - 146 OF 178 STORIES

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May 3, 1997, U.S. Edition

SECTION: World Politics and Current Affairs; AMERICAN SURVEY; Pg. 21

LENGTH: 1175 words

HEADLINE: Chopping up America's **power**

BODY:

WASHINGTON, DC

THE average American finds the subject of **electricity deregulation** intensely boring--and therein lies a story. In Washington and the state capitals alike, politicians are pondering one of the biggest industrial restructurings the country has ever seen. A number of proposed **electricity** bills are before Congress, and several states are debating whether to follow the example of California, Rhode Island and Pennsylvania in enacting **electricity** competition laws unilaterally. Big business, as highly charged as the matter in hand, is lobbying convulsively. Yet consumers snooze.

On the face of it, there is little to lobby about. ~~X~~ Most pressure groups appear to agree that competition in the \$ 200 billion-a-year **electricity** market, hitherto served by a series of local monopolies, is a good thing. But billions of dollars hinge on the precise form and timing of that competition. Moreover, with both Republicans and Democrats split on these details, and with the administration yet to spell out its own position, lobbyists have an even better chance than usual of getting their way.

~~X~~ The electricity business is made up of four main functions: generation, transmission (of high-voltage electricity along a grid), distribution (of lower-voltage electricity in a local area) and sales to individual customers. There is already some competition in generation; last year the Federal Energy Regulatory Commission (FERC), the main federal agency regulating the business, made the utilities give generating firms fair access to their **power** lines so that they might sell on their electricity to other utilities and wholesalers. The more full-blooded form of competition now under discussion would let individual consumers choose between competing suppliers.

~~X~~ The debate is monopolised by two broad and opposing coalitions, one pushing for the rapid introduction of competition, the other arguing for a slower phase-in and cushier (some would say outrageous) terms for the established players. ~~X~~ The first coalition comprises a collection of big industrial consumers of electricity, such as car and chemicals firms, which are eager for lower rates; a handful of the established electric utilities, such as Indianapolis **Power & Light**, which reckon they would thrive under competition; and various energy firms, such as Enron, a Houston-based firm with big interests in gas,



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which also see competition as a chance to make money.

This coalition not only trumpets the benefits of competition (which include, according to one estimate, a fall in the average electricity bill of anything from 15% to 43%). It also warns states that electricity-guzzling **industries** might move elsewhere if rates do not fall.

* But the second coalition arguably has even more clout. At its core is the Edison Electric Institute (EEI), the lobby group representing the investor-owned utilities that supply three-quarters of the country's electricity, most of which fear that competition will lead to plunging profits. (A measure of their anxiety is the alacrity with which they have been rationalising: 15 mergers are now under way in the sector, all with a view to cutting costs). This coalition also includes unions, such as the International Brotherhood of Electrical Workers, whose members' jobs might disappear, and various other sorts of utilities such as the rural co-operatives (see box on next page) and municipal **power** companies, anxious lest deregulation lead to the unravelling of the tax-breaks and subsidies they now receive.

The debate over "stranded costs"--the most controversial issue in electricity deregulation--gives a clue to the strength of the second coalition. Stranded costs are those investments made by utilities which are expected to become uneconomic when competition is introduced and rates begin to fall. They include nuclear plants (there are now much cheaper ways of generating electricity), and long-term contracts with various alternative energy suppliers.

The EEI says utilities should be compensated for these stranded costs; they were investments, it argues, undertaken on the understanding that they would earn a fair return, before there was any talk of competition. Without compensation, it says, millions of small shareholders will suffer. Yet capitalism thrives on the "creative destruction" of old plant by newer, more efficient, investments, and in most **industries** firms lumbered with redundant investments do not get bailed out by the government.

Nonetheless, many people, including the FERC, the Energy Department and various key congressmen, have accepted the argument that there should be some sort of compensation for stranded costs. So the debate has moved on to how much the compensation should be and how it will be paid. Estimates of stranded costs range from \$ 10 billion to over \$ 300 billion. In California, utilities were recently awarded \$ 28.5 billion in stranded-cost compensation--a sum larger than their annual revenues. Moreover, they will get the money up-front, giving them a war chest likely to frighten off many firms thinking of entering the state's electricity market.

The argument over the timing of competition--and whether it should be forced on states by the federal government--also seems to be going the way of the second coalition. The EEI and its allies argue against immediate, federally-mandated competition. Some groups in the coalition suggest that a federal mandate may be an unconstitutional interference in state affairs, an argument that appeals to Republicans.

* In any case, only a handful of states have plans to introduce full-scale competition for residential users before 2000 (although in some states plans for competition for industrial users are more advanced). In Washington, DC, the Senate has yet to discuss deregulation in any serious way; even in the House,



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none of the proposed bills has yet emerged from committee.

Meanwhile the administration's deregulation bill is wending its way through a long inter-agency review. When it is at last unveiled, many suspect it will be used primarily as a vehicle to impose various environmental obligations on utilities, rather than as a way of introducing competition quickly. The administration prides itself on its green credentials, and many environmentalists have complained that deregulation may lead to more use of cheap, polluting, coal-fired **power** stations (though it might instead encourage more use of renewable **power**, if consumers are willing to pay the extra cost).

In sum, the EEI and its allies appear successfully to have slowed the debate about deregulation to a snail's pace, although large industrial users have sometimes won promises of lower rates for themselves. Only one (implausible) event might bring about rapid, and real, competition: a sudden surge of interest by the average American in his electricity bill.

LANGUAGE: ENGLISH

LOAD-DATE: May 2, 1997



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May 7, 1997, Wednesday, 3 STAR Edition

SECTION: BUSINESS; Pg. 1

LENGTH: 1341 words

HEADLINE: Crosscurrents;
Not all plugging into movement;
Electricity deregulation gets mixed reception across U.S.

BYLINE: MICHAEL DAVIS; Staff

BODY:

As Gov. George W. Bush declared that the time is now to open Texas **electricity** markets, across the Sabine River, Louisiana lawmakers were saying the opposite: They believe their state should wait before tackling the thorny issue.

Those two views spotlight the fragmented way **electricity deregulation** is proceeding in states across the nation.

Further complicating matters is the possibility of a federal **deregulation** bill.

Deregulation of electricity has been gaining momentum since the early 1990s. Consumers and businesses paying high rates for **power** have driven the move to open up **electricity** markets.

But utilities have not easily ceded their state-granted monopolies. In Texas, they were brought back into negotiations because of a threat of rate rollbacks.

Even in states where the matter has been decided and is on the books, such as California and New Hampshire, there are numerous regulatory issues and legal challenges remaining before customers can begin enjoying the lower rates expected with competition.

The compromise agreement reached in Texas with the aid of the governor's office would allow Texans to choose their electricity supplier by Sept. 1, 2001. It would cut residential rates 10 percent over the next three years and freeze rates for large industrial customers until 2001.

It also would allow the state's large utilities to recover virtually all of their "'stranded costs'" - investments in uneconomic **power**-generating plants, mainly Houston Lighting & **Power** Co.'s South Texas Project nuclear plant and Texas



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Utilities' Comanche Peak nuclear plant.

~~X~~ The state would pay the utilities up front for these costs, with the proceeds from state-backed bonds that would be retired by ratepayers.

~~X~~ While consumer advocates oppose such an approach, the market appears to support it.

"We have seen a tremendous rally in utilities bonds almost across the board," said Peggy Jones, utility bond market analyst with Prudential Securities in New York.

In response to Bush's announcement of a compromise, shares of Houston **Industries** rose 2 1/4 to close at 23 3/8 Tuesday. Texas Utilities rose 1 5/8 to 36 7/8. Central & South West Corp. rose 1 3/4 to 22 1/8

The Texas plan presents lawmakers with a dilemma. If they vote against the plan because they oppose bailing out utilities, how do they go back to their constituents and explain why they voted against cutting their electric bills by 10 percent? If they vote for it, ratepayers will foot the bill for the utilities' bad investments.

"Any legislation affecting the way electricity is sold in Texas will be measured on its impact on the voters," said David Hitchcock, associate director of the Center for Global Studies at the Houston Advanced Research Center. "If the result of the legislation is that the average consumer has a higher price of electricity, the legislators are going to pay the price."

~~X~~ California has chosen the same approach to dealing with stranded costs as Texas, but its plan has run into a potential stumbling block: the IRS.

At issue is whether the Internal Revenue Service would require the utilities to book the proceeds of the bonds as a sale or as debt, said Scott Jones, chief executive of the Economic Resources Group in Cambridge, Mass.

Presumably, Jones said, the utilities will issue bonds and use the proceeds to pay off debt or buy back equity associated with **power** plants.

"The IRS has said, 'Wait a minute! That's a taxable event,'" Jones said. "They are saying 'What you have done is sold that capacity forward and you owe us taxes.'"

~~X~~ If the deal is booked as debt, the utilities can amortize the proceeds over 10 years and ratepayers would be spared the tax bite, but if the IRS forces utilities to book proceeds as sales, the taxes would have to be paid up front, something



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that could seriously alter the economics of deregulation, Jones said.

"If the IRS comes down on the side that this is a taxable event, the repercussions will be nationwide," Jones said.

"This is the reason the federal government is involved in this thing in the first place. If the IRS intervenes, then the only body that would have control would be Congress. "

On Tuesday, U.S. Senate Energy Committee Chairman Frank Murkowski said he doesn't favor "total, comprehensive overhaul" of the nation's electric power market. Rather, Murkowski, R-Alaska, told a group of consumer advocates, "if Congress does anything, it should find ways to empower states to promote competition more effectively. "

The California case with the IRS is considered a crucial test for deregulation. If it can be worked out in California, it will pave the way for similar deals in other states.

On Tuesday, the California Public Utility Commission removed two uncertainties from the state's regulatory landscape.

Instead of a phased-in competition, now all customers, including residential, business and large industrial users, will be able to choose their supplier as of Jan. 1. The commission said suppliers coming into California also may provide billing and metering services independent of existing utilities.

X By July 1, California utilities have to tell the commission how many customers per month they can switch from their books to those of other suppliers. By September, they have to have details worked out on a customer education program. Nineteen different agencies are working on that plan, said Leonard Anderson, Pacific Gas & Electric spokesman.

"By November, we have to have the mechanism in place to handle customer requests for switching," Anderson continued. "There is still a lot of work that remains to be done. "

X In Pennsylvania, a law to open up the state to customer choice was signed late last year. Under that plan, customer choice will begin Jan. 1, 1999, and be phased in over a three-year period. Utilities can regain their stranded costs over a nine-year period through a transition charge added on to customers' bills.

But state Sen. Vincent Fumo, a Democrat representing south Philadelphia, has filed a legal challenge to the way the law was enacted in the state's assembly.

"We are not challenging the concept of electricity deregulation, but rather the way the law was enacted," said



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Christopher Craig, legal counsel to Fumo in Harrisburg, Pa.

"The bill was introduced, considered and passed in two days.

We don't believe that was enough time. '"

Opening up electricity markets.

Efforts to open up electricity markets in various states are meeting with mixed success. California, Rhode Island and New Hampshire are expected to be the first states to experience fully deregulated electric markets beginning next year.

Oregon: Portland General Electric, the state's largest electric utility, has agreed to offer all of its customer choice after it closes its deal to be bought by Houston-based Enron Corp

California: Full customer access to retail competition is scheduled to begin on Jan 1, 1998. The Internal Revenue Service is reviewing the tax implications of the plan to cover stranded costs with bonds.

Texas: Gov. George W. Bush announced a compromise agreement bill this week that the Legislature will debate and possibly vote upon over the next three weeks before this session ends June 2

Louisiana: The Louisiana House Commerce Committee decided earlier this week to delay action on electricity deregulation.

The Louisiana Public Service Commission will meet on May 21 to consider a transition plan submitted by utility Entergy.

Pennsylvania: The state passed a law last year to open up electricity markets beginning in 1999. A state senator has filed a legal challenge to the law, saying it was passed too hastily.

New Hampshire: The state has enacted a law for competition to begin on Jan. 1 1998. Public Service of New Hampshire, the state's largest electric utility, has filed suit to block the plan.

GRAPHIC: Graph: Opening up electricity markets (color)(text); Houston Chronicle

LANGUAGE: ENGLISH

LOAD-DATE: May 8, 1997



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Copyright 1997 The Detroit News, Inc.
The Detroit News

June 19, 1997, Thursday

SECTION: Business; Pg. Pg. B3

LENGTH: 336 words

HEADLINE: U.S. **electric deregulation** loses steam

BYLINE: By Noelle Knox / Detroit News Washington Bureau

BODY:

WASHINGTON -- Chances that Congress will **deregulate** the \$ 200-billion **electric** utility **industry** so consumers can choose among **power** providers appear slim, CMS Energy Corp.'s chairman said Wednesday.

"There's no crisis; there's no consensus," William T. McCormick Jr. said during a tour of Washington. "Restructuring legislation is dead in this Congress."

While McCormick spoke, more than 500 utility union workers gathered in Washington to fight federal deregulation.

The lobbying blitz marks the start of a million-dollar campaign by the utility workers, supported by the AFL-CIO and the United Mine Workers, to build grass-roots opposition to legislation in Congress to deregulate the electric utility **industry** by 2000.

Breaking the regulated monopolies that dominate the national **power** grids will be done at the state level, McCormick said, as it is in Michigan and 12 other states. McCormick predicted Michigan's \$ 6 billion market would be open to competition by the end of the year.

State lawmakers are expected to introduce legislation to support deregulation this fall, giving consumers the freedom to chose their **power** supplier over the next five years just as they now choose long-distance telephone services. Residential utility bills could drop by as much as 8 percent, or \$ 3.60 off the average \$ 45 monthly bill, according to state estimates.

But while CMS supports deregulation, the company is lobbying to block proposed clean-air restrictions on soot and ozone from the Environmental Protection Agency. McCormick questioned the EPA's scientific findings.

"They overestimated the costs, and underestimated the benefits," he said.

The rules, which are scheduled to go into effect July 19, are designed to tighten national standards for pollutants that have been linked to increased asthma attacks and cases of sudden infant death syndrome.

If the plan goes forward, CMS would have to "make substantial investments" in



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The Detroit News, June 19, 1997

its coal plants to reduce the amount of airborne soot.
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May 22, 1997 Thursday, NORTH SPORTS FINAL EDITION

SECTION: BUSINESS; Pg. 2; ZONE: N

LENGTH: 323 words

HEADLINE: **DEREGULATION** NOT **POWER** ISSUE IN LOW-COST STATES

BYLINE: Bloomberg News.

DATELINE: CAMBRIDGE, Mass.

BODY:

California and other states with high **power** bills are leading **electricity deregulation** for consumers while Washington and other low-cost states are lagging behind, according to a new study.

The report by National Economic Research Associates, a consulting group based in Cambridge, showed a direct correlation between a state's average retail **electricity** price and its restructuring activity.

States that have already adopted a plan to allow consumers to choose their electric supplier have an average price for **power** of 10.47 cents a kilowatt-hour, or 73 percent higher than states making no moves to deregulation, where the average consumer pays 6.05 cents per kilowatt-hour.

"The higher the price, the more active the restructuring effort," said Sally Hunt, senior vice president at the consulting group.

Analysts say it's largely because residents and businesses of high-cost regions, such as California and the Northeast, are clamoring for legislators to speed the restructuring process.

States moving fastest toward deregulation are California and Rhode Island. Earlier this month, the California Public Utilities Commission voted to allow Golden State consumers to choose their electric supplier starting Jan. 1, 1998.

Officials trying to lure **industry** to California have lobbied to end the monopoly of the state's utilities. California's rates, at an average 10 cents per kilowatt-hour, are well above the national average of 6.8 cents per kilowatt-hour. Without deregulation, the state's consumers cannot buy some of the cheapest electricity in the U.S. from Washington and Oregon. Plentiful hydroelectric **power** in the Pacific Northwest produces retail rates of 4.1 to 4.3 cents per kilowatt-hour on average.

"There's clearly a disincentive for companies that were considering expanding in or moving to California," said Jeff Gorell, spokesman for the California Manufacturers Association.

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June 2, 1997 Monday, NORTH SPORTS FINAL EDITION

SECTION: METRO CHICAGO; Pg. 1; ZONE: N

LENGTH: 779 words

HEADLINE: **ELECTRICITY** LEGISLATION GOES DIM, FOR NOW;
TIME IS SOUGHT FOR **DEREGULATION** STUDY

BYLINE: By Sue Ellen Christian, Tribune Staff Writer.

DATELINE: SPRINGFIELD

BODY:

Despite two years of talks and recent months of high-voltage negotiations about **electricity**, what many lawmakers call the most important issue of their careers has gone black.

For all the coalition-building and lobbying, efforts to pass a bill to introduce competition into the **electric industry** and offer residential customers a 15 percent cut in their energy bills failed this spring legislative session.

Lawmakers saw the most far-reaching legislation of the decade as also the most complicated.

X Though House lawmakers overwhelmingly passed the plan, Senate Republicans wanted more time to scrutinize the 250-page bill to ensure it delivered what proponents said it did.

More than 70 people who negotiated since March to reach a consensus on electric deregulation will return to the table this summer to try to hammer out their differences.

Utility executives, consumer groups and lawmakers said the bill's substantial rate cuts for residential consumers would be preserved in any plan.

"Any changes on the rate reductions for consumers and this bill is totally dead," said state Rep. Phil Novak (D-Bradley), the bill's co-sponsor.

X Many lawmakers say that if a plan is not approved this year, the issue will not arise again until 1999 because the General Assembly likely would not take it up in the coming election year.

A The longer Illinois puts off a deregulation plan, the greater the risk federal lawmakers will impose their own version of deregulation on Illinois. That could happen in other states, too.

In the balance are billions of dollars in savings for electricity consumers of all types, as well as the opportunity for customers to shop for the lowest



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energy prices on an open market.

The stalled plan also postpones badly needed certainty for investors about the future of the state's large utilities.

State Sen. William Mahar Jr. (R-Orland Park), the bill's sponsor, said the summer talks would work off the stalled plan.

"It's a very fine balancing act. It's not as if we're going to start over again from ground zero. We have a good document to work with," Mahar said.

But Martin Cohen, executive director of the Citizens Utility Board, a Chicago-based consumer group, said after the exhaustive negotiations, "I don't think there is any unanswered question that the next five months is going to change."

It is hard for some to believe that a plan backed by such diverse interests as Commonwealth Edison and Illinois **Power**, the Illinois Retail Merchants Association, the City of Chicago and the Citizens Utility Board could fail.

But in the end, the complexity of the issue and the political weight of commercial and industrial interests, which opposed the plan for its slight savings to them and provisions they believed unfairly favored utilities, halted the bill.

"If it is such a good bill, what will shining a little light on it hurt?" said Calvin Butler Jr., head of government affairs for the Peoria-based Central Illinois Light Co. which also opposed the proposal.

The plan calls for a 10 percent cut in most residential customers' energy bills by January. An additional 5 percent cut would come in fall 2000.

Ten percent of residential customers could begin shopping for their electricity provider in 2000, with 30 percent added in 2001 and 60 percent in 2002.

Proponents argued that the plan would offer something for everyone: upfront rate cuts to residential consumers, first shot for large electricity users to enter the competitive market, and the opportunity for utilities to recover some of the expenses incurred while providing energy to a region.

In Edison's case, such costs stem from its nuclear **power** plants.

The groups supporting the bill changed constantly in the final weeks of compromise negotiations. In the end, the plan's critics ranged from the American Association of Retired Persons to the Environmental Law & Policy Center.

Some of the plan's detractors said it allowed utilities to recoup far too much of companies' past investments, at customers expense. Others charged that the promises of rate cuts were illusory and did not reflect taxes, fees and other charges.

Senate Republicans, wary of the complexity, wanted to ensure that the General Assembly could reopen the plan in future years to make changes as needed.



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Chicago Tribune, June 2, 1997

Because the plan would not take effect until January, many legislators saw no harm in waiting until fall to consider it after a summer of study.

Said Mahar, "To have a policy that is effective from the day the governor signs it as well as 10 years from now, we have to do it right, and we have to do it right the first time."

LANGUAGE: ENGLISH

LOAD-DATE: June 2, 1997

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June 3, 1997 Tuesday, NORTH SPORTS FINAL EDITION

SECTION: BUSINESS; Pg. 1; ZONE: N

LENGTH: 645 words

HEADLINE: UTILITIES ON HOLD FOR **DEREGULATION** PLAN;
WALL STREET APPEARS WILLING TO WAIT FOR BILL TO PASS IN FALL

BYLINE: By Sue Ellen Christian, Tribune Staff Writer.

BODY:

When the Illinois legislature didn't pass a utility **deregulation** bill in the session that ended Sunday, the inaction had consequences not only for consumers, but for shareholders of the state's biggest utilities as well. Holders of utility stocks don't like uncertainty.

On Monday, company executives and **industry** analysts agreed that Wall Street is willing to wait until fall for a measure to introduce competition into Illinois' **electric industry** before threatening a brownout on utility stocks and bonds.

But if a legislative package to deregulate the state's electric utilities doesn't come then, the market could suffer a shock.

"The question for investors is, 'Will we have an answer in the fall?' " asked Peggy Jones, a bond analyst at Prudential Securities in New York.

In the meantime, the state's largest utilities, Commonwealth Edison and Illinois **Power**, will continue to hover under a cloud of uncertainty as they work toward some agreement to clear the General Assembly in its fall session, which begins in October.

"I don't think the uncertainty is good for our company, let alone good for consumers or businesses or the economic development of the state," said Larry Altenbaumer, chief financial officer of Decatur-based Illinova Corp., parent of Illinois **Power**.

The spring legislative session ended early Sunday with no deregulation plan. Though the House voted overwhelmingly to approve a package that offered residential customers a 15 percent cut in their energy bills, Senate Republicans wanted the summer to study the complex proposal. Both Illinova and Edison parent Unicom Corp. favored the plan.

Unicom President Sam Skinner said he doubted any significant negative financial reaction over the summer because the solid House vote showed hope of an agreement.

"I think analysts will be impressed with the magnitude of the vote and the



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broad base of the vote," Skinner said.

Wall Street's reaction to the legislative inaction was not surprising. In the first day of trading since the legislative plan stalled, the stocks of both Unicom and Illinova dropped Monday. Both closed down 75 cents on the New York Stock Exchange, with Unicom dipping to \$22 and Illinova at \$21.12.

"That was the range I expected," said Linda Byus, a utilities analyst with Nesbitt Burns Securities in Chicago.

But, Byus added, there remains concern about how much the utilities will have to concede to win over commercial and industrial interests, politically powerful objectors who helped sway Senate lawmakers.

"Obviously, there is concern from an investment standpoint that the companies will have to give up more, particularly with respect to the Illinois Manufacturers' Association," Byus said.

Cathy Milostan, an equity analyst at Mesirow Financial in Chicago, predicts that the market standing of Unicom and Illinova "shouldn't change that much more because so much is still unknown."

If a deal isn't reached by fall, however, "it will be more negative news for them," Milostan said.

Edison's troubled nuclear plants have dampened the company's financial standing for months.

All parties, whether large industrial customers, utilities or lawmakers, want Illinois to pass a deregulation plan as soon as possible and are prepared to resume talks. As time passes, the threat of a federal deregulation plan being imposed on Illinois and other states grows.

David Schanzer, an equity analyst at Janney Montgomery Scott Inc. in Philadelphia, cheered cautious legislators who were wary that the 250-page bill did not deliver what its proponents claimed. "I'd rather have uncertainty than a system that doesn't really work," Schanzer said. "It's about time a couple of states, large ones like Illinois, sit back and let other states try this thing . . . and see where the good parts are, where the problems are."

LANGUAGE: ENGLISH

LOAD-DATE: June 3, 1997



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Rocky Mountain News

June 4, 1997, Wednesday

SECTION: BUSINESS; Ed. F; Pg. 2B

LENGTH: 440 words

HEADLINE: **Electricity deregulation** bid expected to fizzle in House
Industry opposition has legislation at standstill

BYLINE: David Ward; Bloomberg News

DATELINE: WASHINGTON

BODY:

House Speaker Newt Gingrich said Tuesday it was unlikely that the House of Representatives would pass **electricity deregulation** legislation this year.

"I'll be surprised if **electricity deregulation** can pass the House in 1997," Gingrich said in an interview with Bloomberg News. "I think it's an issue much like telecommunications reform where you have to think it all through, and you've got to make sure that you understand all the various problems."

The restructuring of the \$ 200 billion-a-year electricity **industry**, one of the top agenda items of Republican congressional leaders at the beginning of the year, has stalled in recent months amid opposition from the **industry** and some lawmakers.

Unexpectedly strong opposition has emerged from many utilities. The **industry's** powerful trade group, the Edison Electric Institute, also opposes federal deregulation.

Rep. Dan Schaefer, R-Colo., chairman of the House Commerce Subcommittee on Energy and **Power**, is leading congressional deregulation. He has introduced legislation requiring retail competition for the sale and generation of electricity by 2000.

Schaefer spokeswoman Dana Perino said Schaefer still expects that his subcommittee will be able to pass deregulation legislation this year. That would still leave the full committee to pass the bill and send it to the House floor for a vote.

Disagreements have deepened between House and Senate members on the role of federal legislation. Sen. Frank Murkowski of Alaska, chairman of the Senate Energy and Natural Resources Committee, remains opposed to most federal deregulation efforts, and his opposition has effectively stalled Senate action.

Gingrich said, however, that he remained supportive of federal deregulation efforts, but that further debate and consensus needed to be achieved on a range of issues before the House could move to pass legislation.

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House Commerce Committee Chairman Tom Bliley of Virginia said through a spokesman he remained 'as optimistic as ever' that the House would pass a deregulation bill during this Congress, which runs through the end of 1998.

GRAPHIC: Photo (2)
Speaker Newt Gingrich.
Dan Schaefer.

LANGUAGE: English

LOAD-DATE: June 6, 1997



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June 4, 1997, Wednesday LONDON EDITION 1

SECTION: COMMENT & ANALYSIS; Pg. 17

LENGTH: 463 words

HEADLINE: Trend-setting state:

California has adopted a 'big bang' approach to **deregulation**,
says Christopher Parkes:

BODY:

California, ever protective of its reputation as a trend-setter, has taken with relish to the notion of free competition in its \$ 20bn-a-year **electricity** market.

Less than a year after the state legislature gave approval, the California Public Utilities Commission last month declared that the era of **deregulated power** supply would start on January 1 next year.

Setting aside a proposal for a phased approach, it said all markets should be **deregulated** at once. The only constraint would be the ability of the companies and the transmission system to cope with demand.

Some commissioners suggested the "big bang" strategy might raise customers' expectation of early rate cuts beyond the **industry's** ability to deliver them. But they were persuaded that provisions in the legislation which require cuts of up to 20 per cent in residential and small business users' rates by 2002 demanded a much more adventurous approach.

A preliminary assessment should be available by the end of this month when the state's seven investor-owned utilities, and the dozens of smaller municipal and co-operative providers, hope to have an idea of the number of customers wanting to switch suppliers. Industrial and commercial users, some of which expect to reduce their **power** bills by up to 30 per cent, are expected to be first in line.

At about the same time, the commission will draw up its roster of would-be **power** suppliers to the state market, together with a list of applicants seeking to offer metering and billing services.

So far, the most obvious activity has involved the municipal utilities. Even though their status as publicly owned operations excluded them from the formal scope of the state legislation, they have been quick to respond. Some, encouraged by prospective outside suppliers, started positioning themselves even before the commission's decision.

A milestone deal was struck in January between the Northern California **Power** Agency and Enron, the aggressive Texan energy group. The agency, representing a clutch of small municipal utilities with 700,000 customers



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between them, had previously generated and distributed all its own electrical **power** and supplied its customers with gas from Pacific Gas & Electric - the biggest utility in the state.

Competition from Enron, it said, would help reduce gas prices. A similar effect would result from Enron's links to cheaper electricity sources elsewhere in the west, while the agency's new partner would also help it modernise its billing and metering services.

Thus Enron, which in the past 10 years has captured a 17 per cent stake in the US wholesale gas market and has a declared aim of a 15 per cent share of electricity, gained a strategic foothold in the country's most populous market.

LANGUAGE: ENGLISH

LOAD-DATE: June 04, 1997



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Copyright 1997 The Seattle Times Company
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June 03, 1997, Tuesday Final Edition

SECTION: BUSINESS; Pg. G10

LENGTH: 409 words

HEADLINE: UTILITIES -- **DEREGULATION** PROMISES TO SPARK MERGERS APLENTY FOR
POWER COMPANIES

BYLINE: ALEX FRYER; SEATTLE TIMES BUSINESS REPORTER

BODY:

If you thought telecommunications was the business equivalent of the Wild West, wait until state lawmakers **deregulate** utilities.

That may come as early as next year for **electric** companies, and the major players are buzzing with merger mania.

Because utilities are heavily regulated, they post about the same return on equity, the major indicator of financial health. But that belies some important changes in the **industry**.

Last February, Puget Sound **Power** & Light consummated its purchase of Washington Energy in a deal worth \$ 868 million.

The merger makes the new company, Puget Sound Energy, better able to compete in an open market, Chief Executive Officer Richard Sonstelie said during the company's annual shareholders meeting in May.

"We are unable to predict the exact nature of the changes that will be enacted," Sonstelie said. "This means that the optimal 1997 strategy is to position our company to be able to prosper in this new environment within a broad range of outcomes."

But change comes with a cost.

The company trimmed 500 jobs since the merger in February. The 6.6 percent drop in employment recognizes only the former Puget **Power** payroll.

Meanwhile, Portland General will soon be digested by Enron, a Houston-based natural gas and electricity marketer.

The companies are awaiting final approval by Oregon regulators. The move would give Enron entry into the Pacific Northwest and may open the door to the lucrative California markets.

Much like agriculture, the financial health of the utilities **industry** depends on the weather. Lots of snow and rain mean the turbines will spin out plenty of **power** in the hydroelectric dams. Too much snow and rain, however, can mean major



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losses.

Spokane-based Washington Water **Power** said the November ice storm there cost it \$ 11.1 million after taxes, or 20 cents a share. Thousands of residents were without service for almost two weeks.

Instead of passing off the costs of repairs to the customer, Washington Water **Power** took the money out of earnings.

Washington Water **Power** abandoned its plan to merge with Reno-based Sierra Pacific last August because the proposal ran afoul of federal regulators. That penalized profits by \$ 10 million more.

But Washington Water **Power** continued to grow. But it was a hiring spurt in the company's investment company, Pentzer, that accounted for most of the 50 percent increase in employment over the past two years.

LANGUAGE: ENGLISH

LOAD-DATE: June 4, 1997



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Journal of Commerce

May 21, 1997, Wednesday

SECTION: COMMODITIES/CHEMICALS/ENERGY; Pg. 6B

LENGTH: 654 words

HEADLINE: Stranded **electricity** asset bonds still considered viable

BYLINE: BRIDGE NEWS

DATELINE: NEW YORK

BODY:

The entrance of stranded **electricity** assets into the asset-backed securities market is becoming closer to reality.

And if analyst predictions are correct, spreads on the widely anticipated bonds aren't going to be a bargain for what's termed an "'emerging'" class of securities.

Political fallout in Pennsylvania has scuttled plans for PECO Energy's repackaging of "'competition transition charges,'" or CTCs. These charges are what an **electric** utility can charge customers to recoup the value of assets left uneconomic by **electricity deregulation**.

They include the value of **power** plants and **power** purchase contracts that will be made uncompetitive by market-based rate-making, and provide the cash flows of the deals.

POSITIVE HOPES

But analysts at a New York conference last week voiced their positive hopes that any political dissension to the new securities will be overcome.

The stranded asset bonds are expected to be triple-A securities with very little credit-enhancement needed.

That's because the electric utilities will have a "'true-up'" mechanism to play with concerning the backing collateral.

Simply put, if the amount of competition charges collected by a particular utility doesn't match projections - the company can hike the rate.

The cash flows are expected to be tranching, much like home-equity bonds, with stable cash-flow windows. They are mostly seen as fixed-rate transactions.

DEREGULATION SET

Political risk is considered minimal, because pending deregulation

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legislation in most states have irrevocable clause language built in.

"The bonds will be straight pass-throughs, similar to grantor trusts with a five-year average life, or straight owner trusts," said Lisa Anderson, a senior vice president with Donaldson, Lufkin & Jenrette.

The sequential lockouts on the principal will look much like collateralized mortgage obligations, she said.

Anticipated spread levels are in the mid-20 basis points range to Treasuries for a five-year class; mid-30s for a five-year class; about 40 for a seven-year class and near 50 for a 10-year class.

"The shorter cash flows will be tighter and the longer cash flows will be wider," Ms. Anderson said.

NOT "FINANCIAL ASSETS"

The Securities and Exchange Commission recently ruled that stranded utility assets are not considered "financial assets" and are therefore not bound to those rules.

Caroline Morrill, a managing director at Morgan Stanley, foresees between \$75 billion and \$100 billion in issuance, should the delays and political setbacks subside.

"We've polled some utilities and we feel the numbers could go as high as \$200 billion. This year remains a big question mark and we may not see real flow until 1998," Ms. Morrill said. "From an investor standpoint, you have to look at what the individual legislation provides for, what the cash flows include and servicer risk."

The Pennsylvania Utilities Commission is expected to rule on the amount of receivables PECO Energy can securitize on Thursday.

Opposition to securitizing of transition charges has been heavy in some quarters, mainly coming from certain legislators and consumer watchdog groups, who charge that the companies are getting a bailout from bad investment on the backs of customers.

Morgan Stanley's Ms. Morrill explained that by securitizing triple-A assets, lower-rated utilities will reduce the cost of capital and pay-down.

"They can finance 100 percent of asset-backed debt at much lower costs," Ms. Morrill said.

"That's the big engine driving the whole process. It passes savings to the utility customer through securitization."

Deregulation bills have passed in California, New Hampshire, Pennsylvania and Rhode Island, and are pending in Arizona, Connecticut, Illinois, Indiana, Maine, Michigan, Montana, New Jersey, New Mexico and New York.

Ohio, Texas and Vermont are mulling legislation.



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LEVEL 2 - 94 OF 178 STORIES

Copyright 1997 The Houston Chronicle Publishing Company
The Houston Chronicle

May 18, 1997, Sunday, 2 STAR Edition
Correction Appended

SECTION: SPECIAL; Pg. 7

LENGTH: 763 words

HEADLINE: THE CHRONICLE 100;
ENERGY;
Power marketers wheeling, dealing;
Deregulation forcing players to restrain costs, get bigger fast

BYLINE: HILLARY DURGIN; Staff

BODY:

HOUSTON'S top **power** merchants have set off on a dash for growth, triggering a flurry of deals that is transforming some of Houston's largest natural gas and **power** marketers.

The lure of garnering a share of the **deregulated power** market - with an estimated \$ 210 billion in annual sales - is a big reason behind mega-deals such as:

Enron Corp.'s pending acquisition of Oregon-based Portland General Corp.

NGC Corp.'s agreement to take over Destec Energy.

PanEnergy Corp.'s pending takeover by Duke **Power** Co

They are reacting to an increasingly competitive market that is forcing them to hold down costs, and preparing for a future when customers around the country will be able to choose their **electricity** provider.

"Size and scope are really the name of the game - that's why you are seeing these combinations," said Ronald J. Barone, a stock analyst at PaineWebber in New York.

The competition for a share of the business of selling **power** to utilities or municipalities is so fierce, it will keep newcomers from getting into the business.

"Those companies that haven't built up **power** marketing aren't going to at this point," said Carol Coale, senior natural gas analyst at Prudential Securities in Houston.

In the last year, nine of the 12 largest Houston **power** marketers listed on the accompanying chart did deals with



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other companies. Two of the largest transactions, led by Enron and NGC, were examples of major gas marketers acquiring companies that will give them broad electric **power** generation capacity.

That's not to say competition - and consolidation - won't continue.

In theory, natural gas companies should be able to use the people and computer technology they've developed trading natural gas, Coale said. But making that move is much more difficult in reality.

"Still, a lot of the gas marketers haven't done much on the **power** side," Coale said. "If you're going to recruit someone with **power** marketing experience, you're going to pay up. "

PanEnergy, El Paso Energy Corp. and Coastal Corp. are still relatively small players in the **power** marketing arena. Other large gas companies, including Sonat and Consolidated Natural Gas, don't have any **power** marketing operations (SEE CORRECTION).

If they got into this market tomorrow, they'd be up against big players with a two-year head start.

"At the present time, they're not making money in **power** marketing, or (at best a) marginal profit," said Barone.

For example, Enron lost \$ 14 million in the most recent quarter on its venture to sell gas and electricity to businesses and consumers. That loss, which reflects start-up costs from advertising to government relations, has prompted some analysts to warn that the company's earnings growth could be hampered.

The cost is worth it because selling **power** to consumers is the most lucrative part of the business, said Jeff Skilling, Enron's president.

"We are committed to becoming a continental provider of electricity," Skilling said. "If you're starting from scratch, you're really swimming upstream. "

Biggest electric traders

The 12 biggest electric trading firms in the Houston area based on sales in 1996, as ranked by **Power** Markets Week. This includes firms based in Houston, and ones whose trading is primarily located here. The notes column reflects the many changes in the **power** business.

Rank	Company	Sales (in megawatt hours)	Notes
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- 1 Enron Corp. 59,723,290 Is acquiring Portland General Corp.
- 2 NGC Corp. 14,627,509 Has agreed to take over Houston-based Destec.
- 3 Koch 9,963,860 Connected to its Houston natural gas business.
- 4 PanEnergy Corp. 4,239,391 Has agreed to a takeover by Duke **Power** Co
- 5 Coastal Corp. 4,183,175 Created a joint venture with Westcoast Energy called Engage.
- 6 DuPont 4,007,771 Electric trading is affiliated with Conoco's gas trading operation.
- 7 El Paso Energy Corp. 2,814,705 Closed deal to acquire Tenneco in December 1996.
- 8 Noram Energy Corp. 2,721,728 Is merging with Houston **Industries**.
- 9 Tenneco 2,201,213 Taken over by El Paso Energy, reported separately to regulators.
- 10 Coral **Power** 885,185 Tejas Gas Corp. increased its stake in Coral Energy to 50 percent.
- 11 Destec Energy 802,403 Has been bought by NGC.
- 12 Williams Energy Services 310,000 Connected with its Transco natural gas trading operation.

CORRECTION-DATE: June 12, 1997

CORRECTION:

This article incorrectly described Sonat and Consolidated Natural Gas Co. **power** marketing operations. Both companies do have operations that buy and sell electricity. Correction published 6/12/97.

GRAPHIC: Photo: 1. Jolly Hayden, director of transmission and operations for Electric Clearinghouse, a subsidiary of NGC Corp., markets electricity over the phone at the company's trading room in northwest Houston; Graph: 2. Biggest electric traders (TEXT); 1. Betty Tichich / Chronicle, 2. Houston Chronicle, Source: **Power** Markets Week

LANGUAGE: ENGLISH

LOAD-DATE: June 17, 1997



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LEVEL 2 - 117 OF 178 STORIES

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Los Angeles Times

May 11, 1997, Sunday, Bulldog Edition

SECTION: Part A; Page 10; Advance Desk

LENGTH: 947 words

HEADLINE: **DEREGULATION** EXPECTED TO JOLT **ELECTRIC** UTILITIES;
BUSINESS: CHANGES NATIONWIDE WILL RESHAPE THE WAY PEOPLE BUY **POWER** AND THE WAY
COMPANIES SELL IT. SOME FEAR THAT SHAREHOLDERS AND THE POOR COULD SUFFER.

BYLINE: H. JOSEF HEBERT, ASSOCIATED PRESS

DATELINE: MANCHESTER, N.H.

BODY:

Tina Parsons pulled the plug on her hometown **electric** company, the one just a block down Elm Street from City Hall where she works as a revenue administrator.

More than 220 homes and businesses and part of the city itself now get their **electricity** from a company in Vermont. Each resident saves about \$ 250 a year, said Randy Sherman, who helped Parsons negotiate the deal.

Along the Connecticut River in western New Hampshire, retired printer George Hynes came through the New England winter with a little more money in his pocket. He, too, abandoned his local **power** company in favor of a New York broker who gets **electricity** from a plant in Ohio.

Such shopping around for **power** is unheard of across most of the country, but that will change. The \$ 200-billion electricity **industry** is following railroads, airlines and phone companies down the path of deregulation.

The fight over competition, which could rage for years, will reshape the way Americans buy electric **power**, and the way companies sell it.

Supporters say competition among electric utilities will allow consumers to save up to 20% of what they now pay to light homes, stores and factories.

Opponents say some companies will be driven out of business, and some stockholders will suffer losses. They also worry that poor customers may be left in the dark.

Hynes, 73, who lives with his wife on a fixed income in Meriden, N.H., is already counting the savings.

"My bills in winter would run \$ 78 or \$ 80. . . . This past winter the biggest bill was \$ 62" a month, he said. He studied offers from 11 companies, including one who offered him a bird feeder worth \$ 18, before choosing his new



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supplier.

In New Hampshire, where license plates declare "Live Free or Die," about 17,000 people were told to do something rebellious last year: ditch their local utility and shop around for **power**.

Doubters note that the New Hampshire experiment--which expands statewide next year--may exaggerate savings because of a 10% subsidy to boost participation. But in New England, California and New York, where people pay more to light their homes than just about anyone east of Hawaii, any talk of lower rates is welcome.

Illinois and Massachusetts are testing competition. A few states are moving to full-scale programs soon, including California, Rhode Island, New Hampshire, Massachusetts and Pennsylvania.

In Washington, utilities are fighting among themselves over whether Congress should require national competition or allow states to decide. Some companies want to protect their home turf, while others see the opportunities for new business.

According to congressional disclosure reports, more than \$ 32 million has been spent to lobby on the issue so far and millions more are going for research, polling, public relations and grass-roots activities.

No matter what Congress does, most utility executives believe competition is inevitable and many utilities are trying establish themselves as national players.

"Five years from now customers could well be buying their **power** from companies that aren't even in business today," said Gary Simon, a utility expert at Cambridge Energy Research Associates in Boston.

Other companies that are in business today may be driven to ruin, a prospect that worries shareholders who have money in what was once considered a stable investment.

"The life savings of many investors may be wiped out," warned Bill Steinmeier, a Missouri lawyer and spokesman for a shareholders' group.

But Jeffrey Skilling, president of Enron, a Houston-based energy giant, said consumer savings of up to \$ 80 billion a year will outweigh any stockholder problems.

"No one can seriously defend that current system anymore. It is inefficient. It is unnecessarily costly. It stifles innovation. It forces consumers to pay high rates while large industrial customers get special rates," he argued.

Even with competition, industrial users will still do better than residential customers. A recent agreement aimed at ushering in competition in New York guaranteed 25% savings for industrial users, but provided only modest cuts in residential rates.

Some skeptics remember how small towns lost airline service after



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Los Angeles Times, May 11, 1997

deregulation and wonder if electricity competition might bring more of the same.

Advocates for the poor also argue that unless government steps in, utilities will have no reason to maintain assistance programs for low-income users.

In Kentucky and in the Pacific Northwest, many consumer advocates and state regulators question why change is needed. Their electricity already is the cheapest in the country.

Nancy Hirsh, an Oregon environmentalist, is concerned that more electricity will mean more water being pushed through government dams and more salmon deaths if Bonneville **Power** revs up its turbines to ship more electricity to California.

At recent congressional hearings, Linda Breathitt, head of the Kentucky Public Service Commission, reflected the views of many low-cost states: "We don't want to mess things up."

The cost of one kilowatt hour of electricity averaged 6.9 cents in the United States last year, ranging from just over 4 cents in Kentucky to 14 cents in Hawaii.

The wide range helped create the push for competition.

"Customers are beginning to wake up to these price differentials," says John Anderson, a Washington lobbyist representing the country's biggest industrial users.

Eventually, many **industry** analysts predict, competition will spawn huge energy companies that will sell their "brand" of electricity nationwide, much as oil companies now sell gasoline. Local utilities will be distributors.

LANGUAGE: English

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LEVEL 2 - 118 OF 178 STORIES

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May 10, 1997, Saturday, ALL EDITIONS

SECTION: BUSINESS; Pg. 03E

LENGTH: 542 words

HEADLINE: Utilities fear **deregulation** might bring **power** shortages

BYLINE: Matthew C. Quinn; STAFF WRITER

BODY:

Deregulating the nation's \$ 200 billion **electric power industry** likely would put even more strain on a system already stretched thin in providing **electricity** to homes and businesses, utility executives said Friday.

Bob Johnston, vice president for engineering, planning and operations at MEAG **Power**, said consumers could experience **power** shortages if the **industry** is fully **deregulated** and opened to competition.

That's because the current "obligation to serve" now expected of utilities probably would not survive an **industry** restructuring, said Johnston, whose agency supplies wholesale **power** to 48 Georgia municipal utilities. In addition, utilities may not build **power** plants and transmission facilities without being assured of an adequate financial return, he said.

Johnston said issues like assuring reliability of **power** supplies can be addressed, if regulators and legislators show "careful forethought." But, he warned, "It would be a mistake to mislead them (the public) into thinking we can all have a choice of **power** supplier and (that) the reliability issues historically addressed in a regulated, obligation-to-serve environment will somehow take care of themselves."

Johnston appeared at the second of several informal Public Service Commission hearings into prospective deregulation of the **industry**. The focus of Friday's workshop was how reliable the electrical delivery system would be once the **industry** is restructured.

An executive with Southern Co., which is now charged with management of the Southern region's transmission system, said even the current system is being taxed by recent decontrol of interstate wholesale **power** transactions.

'Cause for concern'

William K. Newman, senior vice president for transmission planning and operations at Southern Co. Services, recounted a series of incidents last summer during which Southern's **power** link with the Tennessee Valley Authority was in jeopardy of overload, apparently due to wholesale **power** transactions by other utilities.



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Southern was forced to make up for a **power** shortfall by stepping up production at its **power** plants and making other electricity purchases. No customers were cut off, Newman said.

"It doesn't mean we were about to have a California-style collapse," he said. But he called it a "cause for concern" that could be heightened if the **industry** is fully deregulated.

However, Julie Simon, representing the Electric **Power** Supply Association, a trade group for independent **power** marketing companies, said competition would improve reliability.

That's because management of the central transmission system likely would be given to a newly created independent agency, Simon said.

James H. Caldwell Jr., representing the Campaign for a Prosperous Georgia, an Atlanta-based consumer group, called for a regional transmission system that would be independent from **power**-generating companies and represent the public interest.

One luxury Georgia has, said Eric Hirst, corporate fellow with the Oak Ridge National Laboratory, is it can watch what happens in other states that are moving more rapidly toward deregulation.

"You don't have to be complacent in Georgia," Hirst said. "But you don't have to be reckless, either."

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May 1, 1997 Thursday, NORTH SPORTS FINAL EDITION

SECTION: COMMENTARY; Pg. 27; ZONE: N

LENGTH: 618 words

HEADLINE: POISED FOR **POWER** PLAYS;
MERGERS: THE CHILDREN OF **DEREGULATION**

BYLINE: By Richard D. Cudahy.; Richard D. Cudahy is a United States Court of Appeals judge and practiced regulatory law for 25 years.

BODY:

Why the urge to merge? In one **deregulated industry** after another, the force of consolidation has been unmistakable. **Electric** companies are mating with **electric** companies and natural gas merchants with their own. Now **electric** outfits are even merging with gas.

This frenzy has raised concerns that the competitive benefits of **deregulation** will be short-lived if the players can regain--by merger --their **power** to control prices and output. Economists call this "market **power**." According to orthodox theory, mergers can create market **power** by increasing the concentration of ownership in an **industry**. The traditional way of assessing the potential for market **power** is to measure numerically how much market concentration would increase after a merger. If the difference is striking, there may be an assumption that antitrust enforcement ought to intervene.

But this may not be the case at all. In making before-and-after merger comparisons, antitrust officials and regulators must recognize that merger partners no longer have the shelter of regulation, but are exposed to the turbulence of competition. According to Almarin Phillips, a University of Pennsylvania professor of law and economics, it is this dramatic shift in the economic environment that triggers transformations in the structure of a once-regulated **industry**--including a powerful trend toward mergers.

Traditional antitrust theory, in dealing with mergers, holds that if the structure of the market is carefully policed, the conduct and performance of competing firms will fall into line.

But exactly the reverse principle may govern in a deregulating **industry**. Under regulation, the composition of the **industry** structure--the number, size and configuration--evolves independent of market forces. When the government ends its close oversight, the **industry** must find its own deregulated equilibrium. Conventional analysis can mistake the striving for equilibrium that sometimes leads to a merger with a conscious effort to obtain market **power** through consolidation.

In a capital-intensive business like airlines or electric **power**, for instance, companies may take on business at out-of-pocket (marginal) cost and



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their competitors may follow suit. Soon all may be short of long-run profits. At this point, a merger may become attractive to promote efficiency or to avoid ruinous rivalry.

The history of every formerly regulated **industry** confirms that deregulation is certain to bring mergers and other consolidation in its wake.

In the airlines three companies lead with close to 60 percent of the business. The **industry** expects more big mergers to thin the ranks of US Air, Continental, TWA or Northwest.

In telecommunications, the overall picture is harder to discern because of the rapid growth of the **industry**, but four of the former Baby Bells have merged with a fellow Baby Bell and British Telecom is merging with MCI. Cable & Wireless may take over Sprint. Among electric utilities, where deregulation is very much in vogue, mergers are now so widespread that the Federal Energy Regulatory Commission has weighed in with draconian antitrust standards.

Does all this suggest that antitrust enforcement in deregulated **industries** is out to lunch? Hardly so, in light of the measures taken, for example, in electric **power**. But orthodox antitrust theories may provide too narrow a view of the deregulatory process. Our vision of deregulation must be broad enough to recognize mergers as an inescapable part of deregulation. Of course, not all mergers are acceptable. But we should recognize that consolidation has a special, and inevitable, place in the grand design of deregulation.

GRAPHIC: GRAPHICGRAPHIC: Illustration by Paul Lachine.

LANGUAGE: ENGLISH

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May 3, 1997 Saturday, NORTH SPORTS FINAL EDITION

SECTION: NEWS; Pg. 5; ZONE: N

LENGTH: 275 words

HEADLINE: STATIC AT **ELECTRIC**-UTILITY HEARING;
FEDERAL GOVERNMENT'S ROLE IN **DEREGULATION** IS DEBATED

BYLINE: By Sue Ellen Christian, Tribune Staff Writer.

BODY:

With demonstrators rallying outside in favor of consumer choice as soon as possible, the role of the federal government in bringing competition into the **electric industry** was the subject of a daylong congressional subcommittee hearing here Friday.

The purpose of the session at the Dirksen Federal Building was to gather various viewpoints on how the monopolistic **electric industry should be deregulated**. And it produced mixed reactions from a wide spectrum of panel members about whether Congress or state legislatures should handle the process.

The handful of current federal bills on the topic generally allow any previous state legislation to take precedence, save for one key provision: Congress passes one of three pending bills that set a specific date by which all customers in the nation have the right to choose their own electric provider.

"In federal legislation, we are not pre-empting the state," said U.S. Rep. Dan Schaefer (R-Colo.), chairman of the House Subcommittee on Energy and **Power**. "But we have to look at the nation as a whole; we're concerned we're going to deprive citizens in one state because they have a different date certain."

Schaefer wants all customers to be allowed to shop on an open electric market by Dec. 15, 2000. Another federal bill specifies January 1999, and a third sets Dec. 15, 2003, as the drop-dead date.

Several of Friday's panelists are involved in negotiations in Springfield to hash out state legislation that could be acted on by lawmakers this spring. The various state proposals would open up the electric market as early as next year or phase it in through 2005.

GRAPHIC: PHOTOS 2PHOTOS: George Jones (above), a former employee of Commonwealth Edison Co., speaks next to a prop during a rally Friday outside the Dirksen Federal Building. Inside, a House subcommittee hears testimony on deregulation from Lillian Drummond (right) of the South Austin Coalition Community Council. She presented lists of names of people who can't afford to pay their electric bills. Tribune photo by Carl Wagner. Tribune photo by Jose More.

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Letters

The Northern Marianas are a land of opportunity

A Reader's Digest story that ran in your June 20 edition describes the intolerable abuse of a few guest workers in the Northern Marianas ("Northern Marianas hit as rights abuser," World; Briefing/Pacific Rim). It paints, however, a hideously false picture of the general situation there. Unlike conditions in most U.S. island possessions, the people of the Marianas are enjoying prosperity and an increasing standard of living.

The key to their success has been a rejection of dependency on handouts from Washington and an emphasis on encouraging enterprise. A guest-worker program permits thousands of Filipino and Asian workers, with no hope of decent employment in their native countries, to come, work for a year and return home with a couple thousand dollars in their pockets.

For these laborers, that is an enormous amount of money — a

nest egg that dramatically improves their lives in their native lands. This more than makes up for a year of austere living and strenuous work.

Certainly there have been abuses of guest workers in the Northern Marianas, but when I visited there as part of a delegation, a commitment to prevent abuse and mistreatment of guest workers was evident.

Our delegation met with church, community and labor activists championing the cause of guest laborers who described a greatly improving situation. The vast majority of the guest workers clearly have not been cheated or sexually abused. The vast majority of guest workers have benefited greatly from their year stay in the Northern Marianas.

Gov. Froilan Tenorio, whom I have gotten to know, and his island brothers and sisters are not evil or uncaring people. Even though some

crimes against vulnerable guest workers have not been prosecuted successfully, it is not because of a callous disregard of the rights of the victim, as implied in the article.

Justice in our country is not always perfect. I met the prosecutor from the Marianas, and he is a professional with strong moral convictions.

Finally, if the Northern Marianas ends its guest-worker program because of unfair articles such as the one that ran in your paper, thousands of poor people who benefit from work there will have no jobs.

If the Northern Marianas returns to looking for assistance from Washington rather than encouraging enterprise, its whole population will sink into the same poverty that plagues much of the Pacific.

DANA ROHRBACHER
U.S. House of Representatives
Washington

Taking an informed approach to deregulating the electric-utility industry

In his June 6 commentary, "Providing power to the people," Adam Thierer badly mischaracterizes the debate over the restructuring of the U.S. electric-utility industry. To begin with, the nation's shareholder-owned utilities do indeed support a transition to competition, which we believe will benefit customers.

Contrary to Mr. Thierer's assertion, our companies are not spending time and money lobbying Congress to preserve the status quo. What we are advocating is a transition to competition that will benefit all customers, not just large industrial customers.

At the same time, many of our companies are eager to enter the competitive market, confident that they will prosper by building upon the experience and customer service Mr. Thierer denigrates.

Moreover, by quoting the flawed Clemson University study of last year, Mr. Thierer repeats the fantasy that the average customer's bill will drop by 43 percent under competition, culminating in an annual savings to the nation of \$107 billion.

Does Mr. Thierer realize that the utility industry is a \$208 billion business and that cuts of that magnitude would suggest a mind-boggling plunge of more than 50 percent in

electric revenues? Not a likely scenario, nor a forecast that helps sharpen the debate over this issue.

Finally, not everyone shares Mr. Thierer's unqualified affection for deregulation.

Just ask airline travelers who fly into Bismarck, N.D., or any other small to medium-size city served predominantly by one carrier. Service in most of those locales has declined, and fares have soared.

M. WILLIAM BRIER
Vice president
Marketing and communication
Edison Electric Institute
Washington

Hispanics in America will not become part of the 'victim movement'

As a Hispanic pregnancy-center director and parent educator with Catholic Charities, I couldn't agree more with John Leo's observations about the inherent differences between Hispanic and black minorities ("Diversity reporting that divides," Commentary, June 21).

At Centro Tepeyac Pregnancy Center, where we help anyone who comes to our door, my observation has been that the Hispanics and African blacks have much more in common with the "traditional American values" of which Mr. Leo speaks than do blacks or whites

raised on the welfare system.

That is, the people who come to us for help are generally hard-working and determined to make it on their own. They are not looking for government handouts and do not want to be dependent on others for their welfare.

They are also very family-oriented, as evidenced by the fact that rarely do we need to place them in shelters or shepherding homes. They usually find a relative or friend to take them in during a crisis pregnancy, or anytime for that matter. They love the United States and what it has to offer and want very

much to participate. Believe me, the hair-raising stories about what they have done to get here are the best evidence of their heroic willingness to get ahead.

In conclusion, I strongly agree with Mr. Leo that Hispanics will not become part of a "victim movement" or an anti-white coalition — their Christian culture will not allow it. Their hope is too strong.

MARIA SUAREZ HAMM
Administrative director
Centro Tepeyac (Crisis Pregnancy Center)
Silver Spring

Gov. Dean's health care system was a disaster for the residents of Vermont

The June 1 response of Vermont Gov. Howard Dean ("Health care is everyone's entitlement," Forum) to my April 20 commentary ("Beware the Vermont health care link") on our state's experience with Dean-style health care "reform" disavows the "distorted picture" I painted and says my commentary "contains too many factual errors to respond to individually."

It is entirely characteristic of Mr. Dean to accuse critics of "many factual errors" without daring to identify even one. Like his model, Bill Clinton, Mr. Dean is a political coward who readily uses unsupported charges and blatant falsehoods to advance his career. That he has been so successful at it does not speak well for today's Vermonters. Old-fashioned Vermonters, now found only in museums, would long since have

sent him packing back to the Hamptons.

JOHN McCLAUGHRY
Kirby, Vt.

John McLaughry of Vermont's Ethan Allen Institute wrote a piece published by your paper a few weeks ago. It challenged the perception that Vermont has a successful health care system. Later, you published Gov. Howard Dean's response. It is with dismay that I watch unfold a typical example of what "public debate" has become in our nation — sidestepping and redirecting.

Why can't Mr. Dean respond to Mr. McLaughry point by point so that public debate actually gets us somewhere? Instead, Mr. Dean's response is to dismiss summarily Mr. McLaughry's facts as inaccurate,

without bothering to cite a source. He goes on to redirect the reader's focus by claiming that the measure of success for health care is to see how many people are covered.

As a small-business owner, I know that viewing health care as a whole simply by counting the number of covered individuals is a huge mistake. The measures of success should, at least, be: How many have coverage, what is the quality of that coverage and what is the cost to society of that coverage? I am left still wondering about the latter two factors.

Mr. Dean's one-sided presentation of the state of health care in Vermont causes me to mistrust his handle on reality. His dismissal of Mr. McLaughry's facts leads me to believe that the facts are not inaccurate but, rather, inconvenient.

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