

Electric Power Daily

Transmission

FERC ORDERS PROMOTE INDEPENDENT GRID COMPANIES, RATE INCENTIVES

The Federal Energy Regulatory Commission Wednesday, in separate cases, promoted the creation of standalone, independent transmission companies and the expansion of the grid by allowing certain forms of incentive rates.

The decisions, in which the commission granted innovative rate treatments for two transmission projects, reverse earlier FERC policy and demonstrate the commission's determination to promote the development of for-profit transmission companies around the country.

"This is a business model we have been encouraging and we have great expectations for," Commissioner Nora Brownell said at the meeting.

One case dealt with Washington, D.C.-based Trans-Elect's purchase of Consumers Energy's transmission system (EC02-23). The commission initially approved the sale in February, but rejected an income-tax adjust-

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Mergers

FERC APPROVES CENTRICA, NEWPOWER MERGER, BUT COURT ADDS WRINKLE

The Federal Energy Regulatory Commission Wednesday approved the merger of Centrica and NewPower, after it concluded the combination would not affect wholesale power markets because the companies sell gas and electricity to retail customers.

While that was welcome news for the companies, the U.S. Bankruptcy Court for the Southern District of New York added a wrinkle that the companies were still evaluating late yesterday.

Under the proposed merger, NewPower, a spinoff of Enron, would be a subsidiary of Centrica, which proposed to purchase the company for \$1.05 per share or about \$130-million. No party protested the companies' Feb. 28 application, FERC noted in approving the deal.

Bankruptcy Court Judge Arthur Gonzalez, however, found that there are certain tax and pension issues associated with the proposal that were outside his jurisdiction, according to

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JUSTICE DEPT.'S CHIEF ENVIRONMENTAL ENFORCER SAYS HE'LL PURSUE NSR SUITS AGAINST UTILITIES

The Bush administration's top enforcer of environmental laws Wednesday said he expects a number of lawsuits filed by the Dept. of Justice against power plants for alleged violations of the Clean Air Act's new source review requirements will go to trial in the next several months.

The "role of the Department of Justice is to...litigate some of the cases. We're going to push forward with that," Tom Sansonetti, assistant attorney general for the Environment and Natural Resources Division, said. His division has a \$3-million budget to pursue the cases.

Meeting with reporters, Sansonetti said he anticipates that by this time next year three NSR suits would be in court. Sansonetti, who joined the administration in December and served at Dept. of Interior under the George H.W. Bush's administration, said he was willing to pursue the

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FERC REJECTS CALIFORNIA ISO INTERIM MARKET SOLUTIONS AS 'PIECEMEAL,' SEEKS BROAD PLAN

Federal regulators Wednesday rejected the California Independent System Operator's proposed interim market changes as "inappropriate" and "piecemeal," and urged the ISO to complete work on its broad market redesign.

Under the proposed changes, the ISO would have modified its tariff to alter the way it handles intra-zonal congestion and revised its incremental and decremental bidding patterns (ER02-922). The ISO uses the bidding system to pay generators to increase or decrease generation to help balance the grid.

Generators, including Duke Energy, Dynegy, Mirant, Reliant Energy and Williams, opposed the changes, telling the Federal Energy Regulatory Commission that the ISO never consulted them or other stakehold-

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NORTHWEST ALUMINUM COMPANY MAY BE CLOSE TO SIGNING BPA DEAL, RESTARTING TWO SMELTERS

Golden Northwest Aluminum and the Bonneville Power Administration are close to reaching a deal on the possible restart of the company's idled Goldendale and The Dalles aluminum smelters in the Pacific Northwest.

Brad Wilcox, Golden Northwest's owner and chief executive officer, is "trying to put together a package" with BPA, "but it's not there yet," Jim Woodward, a United Steelworkers union staff representative who has led the union's contract negotiations with Golden Northwest since last year, said in an interview late Tuesday.

Woodward said he hopes to hear something definitive about a possible restart "in the next couple of weeks." Golden Northwest officials

Electric Power Daily will not publish Friday, March 29 in observance of the Good Friday holiday. The next issue will be dated Monday, April 1.

could not be reached for comment.

BPA spokesman Mike Hansen echoed Woodward's comments Wednesday and said BPA and Golden Northwest appear to be close to an agreement.

A take-or-pay clause in BPA's contract with Golden Northwest take effect April 1 and would require the aluminum company to pay for its BPA power—a total of 236 MW for both smelters—whether or not restarts its 168,000mt/year Goldendale and 82,000mt/year The Dalles smelters.

Golden Northwest is not expected to take any power in April, Hansen said. Nevertheless, the company may end up paying nothing to BPA. Under their agreement, if the market price for power is at or above BPA's price, Golden Northwest would owe nothing to BPA, he said.

MO. SMELTER THREATENS TO LEAVE CO-OP SUPPLIER IN FAVOR OF WHOLESALE MARKET

A Missouri aluminum smelter with a 400-MW load is threatening to sever a longstanding power supply relationship with Springfield, Mo.-based Associated Electric Cooperative in favor of relying on the wholesale market to meet its demand.

AECI, which is owned by six regional generation and transmission co-ops, has supplied power to the Noranda smelter, located near New Madrid, Mo., since it opened in 1970. The co-op's 1,200-MW, coal-fired New Madrid plant sits only several hundred yards from the smelter along the Mississippi River. The smelter's current contract expires May 31, 2003.

Instead of a rate contract based on the price of coal-fired generation, the co-op recently offered Noranda a new, "blended rate" that is slightly higher than what the smelter now pays to reflect the co-op's natural gas-fired generation costs, Keith Hartner, an AECI division director, said Tuesday. Since 1998, AECI has been diversifying its coal-dominated generation portfolio by building 1,600 MW of gas-fired capacity. Gas now fuels about 42% of its generation.

Noranda, however, balked at the new contract rate. "They have told us they're ready to [walk away from] the contract as of June 2003 because they think they can get power on the market cheaper," Hartner said. Electricity costs generally amount to about 40% of aluminum smelters' total operating costs.

George Swogger, administrative manager of Noranda's New Madrid smelter, said the Canadian company either wants to extend the current AECI contract or find a comparable replacement. "It's up in the air right now," he said.

Because the smelter represents more than 10% of AECI's system load, AECI is not eager to lose Noranda as a customer, Hartner said. But the utility also realizes that losing the company would free up 400 MW and allow AECI to postpone construction of a planned 100-MW, gas-fired plant for several years, probably until 2007. "It's like finding a power plant," Hartner said.

FERC REJECTS GENERATORS' COMPLAINT AGAINST ENTERGY, BUT MAY REVISIT ISSUE

In a defeat for merchant generators, the Federal Energy Regulatory Commission Wednesday rejected allegations that New Orleans-based Entergy imposes excessive penalties on generators responsible for imbalances on its transmission grid.

But while FERC rejected the complaint, several

commissioners said they believed the generators' concern was valid and should be addressed as part of FERC's pending standard market-design rulemaking.

A group of 11 generators told FERC in a January complaint that the way Entergy charged for balancing energy amounted to an abuse of monopoly power (EL02-46). The group claimed Entergy abused market power and created market inefficiencies by sending improper price signals and denying comparable service.

The issues stem from restrictions in Entergy's transmission tariff that limit generator flexibility in defining a unit as a power sink for purposes of keeping the grid balanced and avoiding having to buy balancing energy from Entergy. Designating a unit as a sink allows a generator to supply itself with balancing power and avoid having to buy it.

FERC appeared sympathetic to the complaint, but noted that the restrictions in Entergy's tariff were valid under Order 888, which set the rules for how transmission owners must open their grids to competitors. The final order was unavailable at press time.

Commissioner William Massey, concurring with the decision, argued that under FERC's policy of comparable access to the grid, generators should be able to supply themselves with balancing energy, rather than being forced to buy it.

Massey said FERC's working paper on market design included a proposal for network service he believed would allow a generator to designate a unit as a sink. The standard market design rulemaking "is the solution to this problem," Massey said.

FERC staffers said the commission should focus on the issue, including what qualifies as a source and sink for energy balancing purposes, in its market-design rulemaking.

NEW YORK ISO WARNS STATE NEEDS TO ADD 7,100 MW BY 2005 OR RISK SHORTAGES, SPIKES

The New York Independent System Operator Wednesday warned that the state needs additional generating capacity to avoid shortages and price spikes.

The ISO estimated that the state will require 7,100 MW of new capacity by 2005, with 2,000 to 3,000 MW of that in New York City, and up to 1,000 MW on Long Island, two areas in the state that have been identified as load pockets, or regions with limited generation and transmission capacity. The ISO issued the warnings in an update of a power alert it first issued last year.

The ISO, which in the past criticized the state siting board for taking too long to approve plants, praised the agency in yesterday's report, saying it "has done an excellent job of streamlining the process." The board approved 3,680 MW of capacity additions in the last year. But ISO officials said they are concerned that, of six major plants approved, only one is under construction.

The siting board earlier this week certified a 750-MW project Atlanta-based Mirant proposed for north of New York City, but the company is not certain it will proceed with the plant, given current market prices and tight financing resulting from the Enron crisis. The ISO also noted the Northeast drought could reduce hydroelectric capacity.

In its latest report, the grid operator reduced its estimate of generation the state would need by 2005 from 8,600 MW last year, saying the state's slowing economy has reduced

demand. The report added, however, that the loss of the World Trade Center is not a factor. The destruction of the two office towers reduced overall demand by only 90 MW, it said.

"New York remains headed toward a very serious power shortage unless it acts immediately to get new supply sited and actually built within its borders," ISO Chief Executive William Museler. He urged the state Legislature to renew a state siting law, which consolidates various state agency approvals. That statute is due to expire at the end of this year.

In addition to adding new generation, the state must encourage transmission upgrades and expansions, through market-design enhancements, the ISO said. It is now trying to identify the most valuable transmission projects, and will release a list by the end of the year. New York must also expand its natural gas transportation infrastructure, because most new power plants are gas-fired, the ISO said.

Also yesterday, Wakefield, Mass.-based consultant Energy Security Analysis Inc. said that despite the current depressed climate for merchant power investment, the Northeast should still see a significant amount of new generating capacity come on-line over the next two years,

ESAI, however, said it expected the recent tightening in project financing would have the greatest impact on supply after 2003. Compared to ESAI's previous projections for New York and New England, its recent probability assessments for capacity additions have actually increased to 8,300 MW in the New England Power Pool and 6,200 MW in New York, although most of the capacity is slated to come on-line this year and next.

The company identified a number of indicators currently affecting future merchant capacity development, including increased support for price mitigation measures, lower forward prices and less liquidity, tighter restrictions on developers' debt-to-equity ratios and the fact that a number of "over-committed and over-leveraged" developers are restructuring their balance sheets, forcing the sale of both existing assets and projects in development.

RESTART OF BROWNS FERRY NUKE TO COST UP TO \$5.6M MORE THAN EXPECTED: TVA STUDY

Restarting the Tennessee Valley Authority's Browns Ferry Unit 1 nuclear reactor in Alabama, which has been idle since 1985, will cost up to \$5.6-million more than the authority initially estimated, an internal study group reported to the TVA board Tuesday.

But, despite the project's higher cost estimates, restarting the unit would be economical because it shares the site with two other operating reactors, reducing the unit's operation and maintenance costs, the group said in its report.

The group estimated it would cost between \$1.73-billion and \$1.86-billion to reactivate the plant, compared with earlier estimates of between \$1-billion and \$1.3-billion. The proposed project would increase the plant's capacity from 1,050 MW to 1,280 MW and take five years to complete, the report said.

The report also noted that Browns Ferry Units 2 and 3 have performed well since they were restarted in the early 1990's. All three reactors were closed in 1985 because of safety concerns.

The TVA board, which had asked for the study last

September, is expected to make a final decision by July on whether to restart the plant. Among other things, the board will have to weigh how to finance the project given TVA's high debt and limits on new borrowing.

TVA Chairman Glenn McCullough took a non-committal position on the issue, saying in a statement that the report showed the plant could be an "affordable, reliable" source of power for the authority that the technical study was only one step toward making an "informed decision" on the issue, he said.

The group recommended that, as part of the restart plan, TVA should seek a 20-year license extension for Unit 1. Its current license is set to expire in 2013. TVA has already indicated to the Nuclear Regulatory Commission it intends to renew the licenses of all three Browns Ferry Units.

Last August, a group led by Chattanooga, Tenn. businessman Franklin Haney proposed a deal to provide TVA with \$1.3-billion to finance the restart so TVA would not need to make a direct capital investment. After the report was released, Haney's spokesman said the businessman would meet the project's higher costs.

TVA has not expressed interest such a deal and a recent ruling by the federal Office of Management and Budget indicated that the proposal would not allow TVA to avoid incurring more debt.

DAMAGED DAVIS-BESSE NUKE MIGHT BE ABLE TO USE PART FROM ABANDONED MIDLAND

Using a reactor head from the abandoned Midland nuclear reactor in Michigan to replace the damaged part at the 906-MW Davis-Besse nuclear plant in Ohio is now "viewed as a viable alternative," to ordering and waiting for a new part to be manufactured, a Consumers Energy spokesman said Wednesday.

Dearborn, Mich.-based CMS Energy, parent to Consumers Energy, owns the Midland plant.

The Consumers spokesman said officials from Akron, Ohio-based FirstEnergy, which owns Davis-Besse, visited Midland last week, and determined that the Midland reactor head apparently would be compatible with Davis-Besse.

FirstEnergy discovered severe corrosion of Davis-Besse's reactor head in February forcing the plant's shutdown. Because of the time required to order and make a new replacement part, use of an existing part to repair the plant's damage could significantly reduce the time Davis-Besse is kept off-line.

Just last week, a CMS spokesman called the idea "ridiculous," because CMS had not conducted the necessary maintenance on the component since it abandoned the Midland project in 1984.

The Consumers spokesman said a "formidable list of engineering issues" remains to be unresolved. "It's not a done deal, but it looks like it has potential," he said, adding that Consumers has "a desire to provide assistance if we can."

DUQUESNE LIGHT ANNOUNCES RECOVERY OF STRANDED-COSTS; RATES TO FALL 16-20%

Pittsburgh-based utility Duquesne Light Wednesday said it had finished collecting the "stranded cost" portion of its rates, becoming the first Pennsylvania utility to do so. Completing collection of the costs, which represent past utility expenses considered unrecoverable in the competi-

tive market, will allow the utility to reduce its rates by 16-20%.

At the same time, Duquesne announced that it was raising its "price-to-compare," a price mark retail marketers compete against, adding that it expects the move would increase the number of customers shopping in the state's competitive market.

Under the state's deregulation law, utilities were permitted to recover stranded costs, largely related to power plants, through a so-called Competitive Transition Charge (CTC) on delivery rates. Duquesne, a subsidiary of DQE Inc., was able to eliminate stranded costs quickly because it sold its power plants at a good price, and used the proceeds to pay off stranded costs, a state Public Utility Commission spokesman said.

Duquesne in 2000 swapped its nuclear holdings with FirstEnergy for some coal plants, then sold all of its fossil plants, about 2,600 MW, to Orion Power Holdings, which was recently acquired by Reliant Energy, for \$1.7-billion. Because the sale did not cover all of Duquesne's stranded costs, it took another two years to end the CTC, state Consumer Advocate Sonny Popowski said. Duquesne also signed a contract making Orion "provider of last resort" (POLR), supplying customers that do not shop through 2004, at capped rates.

The 16-20% rate cuts will mean reductions of about 3.3 cents/kWh for residential customers, lowering the average rate for that class to 7.9844 cents/kWh, a Duquesne spokesman said. At the same time, the generation portion of rates will rise from 4.7149 to 5.5082 cents/kWh under a new contract the utility signed with Reliant.

For commercial and industrial customers, the stranded-cost collections will be eliminated between May and July, depending on specific rate classifications, the utility spokesman added. Those customers will also see rate cuts in the 16-20% range, he noted, but could not estimate the change in their prices-to-compare because many large customers take power under negotiated rate agreements. For all customers, the 16-20% rate cuts will be capped through 2004, under the POLR agreement with Reliant.

Although Popowski hailed the announcement, Citizen Power, which calls itself a "utility watchdog organization," was critical. The Pittsburgh-based group applauded the end of the CTC, but said, "this charge should never have been on customer bills in the first place," adding "fast-track collection of stranded costs is the real reason utilities pushed for electricity deregulation." According to executive director David Hughes, "Utilities initially opposed deregulation. But once they realized they could collect on their bad nuclear investments faster than the rate plans already approved, they got on-board."

CTC collections will not end for other Pennsylvania utilities until 2008-2010, the PUC spokesman said.

CAROLINA POWER & LIGHT SIGNS DEALS TO SUPPLY TWO CAROLINA MUNICIPALS

Carolina Power & Light Wednesday said it had signed two, long-term, power-supply deals with municipal utilities in the Carolinas—a large one with the Fayetteville, N.C., muni, and a smaller one with the muni in Seneca, S.C.

The Public Works Commission, as the Fayetteville muni is known, said its nine-year, \$1.05-billion deal with CP&L will run from July 2003 through June 2012, and will reduce

the PWC's power-supply costs by about \$160-million—or about 13%—below the muni would have paid under an extension of its current pact with CP&L.

The PWC in February 2001 had issued a solicitation for 300 MW of firm, baseload and intermediate power to replace that current deal, which was to have expired in July 2004.

The CP&L deal with Seneca Light & Water calls for CP&L to become the primary wholesale power provider for the 6,000-customer muni for a period of seven years beginning on May 16. The muni demands up to about 35 MW during peak summer periods, and its needs average about 20 MW.

Seneca currently buys almost all of its wholesale power needs from Atlanta-based Southern Company, plus a small amount of hydroelectric power from the federal Southeastern Power Administration. A Seneca spokesman said that because of a general rise in wholesale power prices since 1997 Seneca will be paying "about 15%" more under the CP&L deal than under the existing deal with Southern. On average, he said, the muni will be paying about \$40/MWh.

FLORIDA POWER AGREES TO CUT BASE RATES 9.25% AND PROVIDE A ONE-TIME \$35M REFUND

Florida Power Wednesday said it had reached an agreement with the Office of the Public Counsel, which represents ratepayers at the state Public Service Commission, to cut its base rates \$125-million, or 9.25%, through 2005.

In addition, the utility will make a one-time \$35-million refund to customers, and decrease its fuel charge by \$50-million for the year. Bills for typical customers who use 1,000 kWh per month will fall from \$91.65 to \$81.62. Assuming the PSC approves the agreement, the new rates would become effective May 1.

Florida Power will no longer have an authorized rate of return on equity range, but will operate with a revenue-sharing mechanism in which shareholders will get one-third of the overage and customers two-thirds. The sharing threshold was set at \$1.296-billion for 2002, and will increase by \$37-million a year during the agreement period. All money above \$60-million over the threshold will be refunded to customers.

Florida Power also agreed to make a 20% improvement to its system average interruption duration index no later than 2004. If it fails to meet that deadline it promised to refund \$3-million refund to customers. The PSC is expected to vote on the stipulation sometime in early April, a Florida Power spokeswoman said.

TORONTO HYDRO RETAIL ARM IS FIRST IN ONTARIO TO OFFER 'GREEN POWER'

Toronto Hydro Energy Services Wednesday became the first electricity retailer in the Ontario market to offer "green power" when customer choice begins in May.

The retail-electric supply affiliate of Toronto's municipal utility said that under its "CitiSource Green Power" offering, residential customers will be able to buy monthly blocks of 55-kWh for US\$3.27/block, or about 5.95 cents/kWh, while small business customers will be able to buy 166-kWh blocks for \$9.14/block, or about 5.51 cents/kWh.

For mid-size users, 4,166-kWh blocks of green power will be available for \$228.56/block, or about 5.49 cents/

kWh, and for large business customers, 16,666-kWh blocks will cost \$914.22 each. The company said the green power initially would be produced by hydroelectric plants and by wind turbines.

PLC TECHNOLOGY COMMERCIAL DEPLOYMENT IS 'CLOSER THAN EVER,' CONSULTANT CLAIMS

With several companies competing to develop the technology, powerline communications is "closer than ever to commercial deployment," an industry consultant, who has proposed three different business models for utilities to pursue, said Wednesday.

PLC uses powerlines to transmit high-speed data as well as electricity and would allow utilities to offer a variety of services, including Internet, security, load-management and appliance monitoring. Among the companies developing the technology are Amperion, Ambient, Current Technologies, Main.Net and PowerComm, according to David Shpigler, president of the Shpigler Group, which recently completed a report for the United Telecom Council.

Those companies are "taking their trials out of the laboratories and putting them on live wires, and that's encouraging," Shpigler said in a teleconference Wednesday. While the number of customers involved in the trials have been low, "things are looking promising" for utilities to embrace PLC based on expected penetration levels.

Shpigler's study showed that with a customer adoption rate of only 14%, a utility's deployment costs would be about \$650 per home, but customer demographics significantly affect those costs, with less signal repeaters needed in more dense populations. Some utilities have said they expect penetration rates as high as 40%, which would bring down costs, he added.

Shpigler listed three business models for utilities, the least aggressive of which is a landlord that leases the right for a PLC network operator to build on its grid. The second model is to develop the PLC network, but hand off customers to another company, similar to what FPL FiberNet, a subsidiary of FPL Group is doing, Shpigler said. The third model has a utility developing the network and providing services to customers.

While some utilities may be content to wait for PLC technology to develop further, cable companies or other providers could capture customers and leave utilities looking at a lost opportunity, Shpigler said.

COURT ALLOWS PG&E TO PAY DEBT INTEREST

Pacific Gas and Electric Wednesday received approval from the U.S. Bankruptcy Court in San Francisco to pay \$790-million in interest to senior debt holders that loaned the utility \$2-billion during last year's financial crisis from expensive wholesale power purchasing, a utility spokesman said.

Under a settlement with the bondholders, PG&E agreed to pay the interest 10 days after approval of the disclosure statement for its bankruptcy reorganization plan. The ruling also enabled PG&E to pay \$214-million in interest by July 31 to other creditors, including the California Independent System Operator, according to the spokesman. PG&E plans to pay all its creditors in full by year-end, he said.

Bankruptcy Court Judge Dennis Montali Monday expressed concern that PG&E's Feb. 12 settlement with

the 18 senior debtholders would constitute an illegal solicitation of votes before its plan was approved by the court. The utility and debtholders met Tuesday to eliminate problematic language in the settlement, including voting restrictions with respect to alternate plans. The revised settlement retains the roughly 7.5% interest rate contained in the original draft for commercial paper and floating rate notes. The interest rates rise starting in February 2003 if the PG&E plan is not effective by then.

KANSAS INDUSTRIALS SUGGEST WESTERN MAY PROFIT FROM STORM-REPAIR WORK

A group of the largest industries in Kansas has asked state regulators to determine whether Western Resources is trying to make a profit through its plan to recover from ratepayers the \$20.5-million the utility has or will spend to repair damage caused by a severe ice storm in January.

Western asked the Kansas Corporation Commission to approve an order allowing it to deferring the costs and impose a carry charge of just over 9%. The Kansas Industrial Consumers, which includes Delphi Automotive, Farmland Industries, Hercules RC Cement, the Kansas Hospital Assn., Raytheon Aircraft and Boeing, is claiming the plan would result in a 1.4% rate hike for Western's KPL division and 2.6% for its KGE unit.

KIC told the commission that because of reduced expenses and a drop in equity since the last rate case, Western may be overstating the amount of expenses that are extraordinary and is proposing an excessive carrying charge.

KIC's filing notes that Western had 2,500 employees at the end of the test year for its last rate case, compared to 1,921 on Feb. 1, when ice storm restoration work was at its height. It also noted that natural gas prices were significantly reduced during the same period.

In addition, Western took an impairment charge on Feb. 18, to account for the reduced value of its investment in the Protection One and Protection One Europe monitored security businesses, which KIC said will result in reduced shareholder equity compared to that used in Western's most recent rate case.

In its motion, the user group argued that the proposal could "result in Western and KGE making a profit on storm damages, rather than the future pass through of such expenses on an 'actual cost' basis."

Western was not available for comment by press time.

FALLING WHOLESALE PRICES PROMPT RATE CUTS IN MASSACHUSETTS RETAIL MARKET

Massachusetts regulators have given Boston-based NSTAR permission to reduce its standard-offer rates for the second time this year, with a 10% cut beginning Monday.

A spokesman for the state Dept. of Telecommunications and Energy Wednesday said the utility won approval to cut rates in its Boston Edison territory to 4.95 cents/kWh from 6.376 cents/kWh, and in Cambridge and Commonwealth Electric territory to 4.2 cents/kWh from 5.626 cents/kWh.

The rate decreases reflect lower fuel prices paid by NSTAR's wholesale suppliers.

Also on Wednesday, Massachusetts Electric filed a request with DTE seeking permission to cut rates for its 318,000 default-service customers by 5.8%. The reduction

to 6.203 cents/kWh from the current 6.917 cents/kWh reflects a drop in wholesale power prices, the utility said. If approved, the new rate would be in effect May 1 through Oct. 1.

In a separate filing, the utility also said it would refund \$5.8-million in service-quality penalties assessed by the DTE March 22. The utility is proposing a one-time credit to all of its customers that would be approximately \$2 for a typical residential customer using 500 kWh per month. The credit will be applied to customers' electric bills in May.

PSEG ENERGY RESOURCES, RELIANT ENERGY PURCHASE BULK OF EPA'S SO2 ALLOWANCES

New Jersey-based PSEG Energy Resources & Trade and Houston-based Reliant Energy purchased nearly two-thirds of the sulfur dioxide allowances put up for auction Monday by the Environmental Protection Agency and private holders, the agency said Tuesday.

EPA said more market players purchased allowances this year than last, when Enron acquired virtually all available tons.

EPA grants 8.95 million tons of allowances each year to coal-fired power plant operators, which are permitted to trade any excess allowances. Each allowance covers one ton of SO2 emissions per year. EPA also maintains a reserve pool of roughly 2.8% of the allowances allocated to all generating units and offers them for sale every spring along with allowances offered by private holders.

In Monday's auction, EPA offered 125,000 spot allowances, usable in 2002 or bankable for future years, and 125,000 seven-year advance allowances, which cannot be used until 2009. In addition, private holders offered 2,388 SO2 allowances in each category.

EPA reported the spot allowances attracted an average price of \$167.74 per ton, slightly higher than the \$162-64 price recorded in previous week trading. PSEG Energy Resources, an affiliate of Newark, N.J.-based merchant generator PSEG Power, bought 40% of the spot allowances, or 51,492 tons, for about \$8.5-million. Reliant purchased 30,000 tons, or 23.55% of the total offered, for \$5.1-million.

Other companies purchasing allowances included Patriot, buying 25,000, 12.63%, for \$4.3-million, and ABN AMRO, which obtained 10,000 tons, or 7.85% of the allowances auctioned, for \$1.6-million. Other major buyers were Detroit Edison, which purchased 5,850 tons for \$984,343 and Dayton Power & Light, which bought 5,000 allowances for \$837,500. Fifteen organizations bought one to 10 allowances to retire, including the Acid Rain Retirement Fund, the Cleaner & Greener Program, and a number of schools.

The average price for the advanced allowances was \$81.87, EPA said. PSEG Energy Resources was also the biggest purchaser in this market, acquiring 50,000 tons for about \$4.4-million, followed by ABN AMRO, which bought 30,000 for roughly \$2.5-million, Dominion Virginia Power, which bought 30,000 for \$2.3-million, and American Electric Power, which acquired 16,388 for \$1.1-million.

"It was good to see such broad participation," said Michael Intrator, managing director of Natsource Global Emissions Markets, New York. After last year's domination by Enron, he noted that a number of big players bought allowances, and even more participated in the bidding.

Intrator said the average prices were in line with what the market had been trading.

NSR-JUSTICE *(continued from page 1)*

eight DOJ lawsuits against power companies for NSR violations.

"I'm not shy to press cases through the court to get an answer," said Sansonetti, noting the concern about the confusion surrounding the implications and enforcement of NSR. "If people on Capitol Hill say 'that's not what we meant,' then they can change it."

The suits, filed during the Clinton administration contend that power plant operators modified their older, previously exempted, coal-fired plants to increase their output but failed to install pollution control equipment as required by the Clean Air Act's NSR requirements. President Bush in releasing his energy strategy in May asked DOJ to examine whether the Environmental Protection Agency was correctly enforcing NSR requirements in the lawsuits. DOJ in January reported that it was.

A review of NSR regulations by EPA and the Dept. of Energy on the implementation and interpretation of the rules is pending. Environmental groups expect the administration to rewrite the NSR requirements in a way that is more forgiving of industry. Bush has proposed national caps on power plant emissions of nitrogen oxide, sulfur dioxide and mercury that some administration officials believe will nullify NSR rules.

Sansonetti rejected claims by NSR proponents that the administration is not pursuing NSR cases or settlements while waiting for expected policy changes by the EPA and DOE. He pointed to the settlement reached in New Jersey with PSEG Fossil in January under which the company agreed to spend more than \$337-million to install state-of-the-art pollution control equipment to reduce emissions of sulfur dioxide and nitrogen oxide.

"Our job is to enforce the law as written," he said. "To the degree the Bush and Cheney administration want to change policy that's fully within their rights. As long as their policy is not illegal...it is my duty to defend them."

CALIFORNIA-FERC *(continued from page 1)*

ers on the proposals.

In pointed comments at yesterday's open meeting, FERC commissioners used the order as an opportunity to lean on California to complete a comprehensive market redesign and submit it to FERC by May 1. The order was not available at press time.

"The root cause of the problem is poor market design," Commissioner William Massey said, referring to problems with the incremental-decremental bidding system. "I hear all of my colleagues encouraging California to come in with a comprehensive plan."

Commissioner Nora Brownell added that "time is running out" for California to fix its market. FERC wants to work with the state, she said, but "it takes a strong partner, and I hope California takes its accountability on this and other issues seriously."

The commission "has hammered this market design [issue] over and over again," Massey said, referring to several years of disputes FERC has had with the ISO since its started operations in 1998. "This needs to be fixed."

FERC staff members told the commission they were optimistic the state would submit a comprehensive redesign by May 1 and that it would conform generally to the commission's policies on market design outlined in a recent white paper.

CENTRICA-NEPOWER *(continued from page 1)*

a NewPower spokeswoman. "Judge Gonzalez was prepared to approve the tender offer," but said those tax and pension issues may affect whether Centrica would be protected from claims related to Enron's bankruptcy, the spokeswoman said.

The judge is waiting to hear from the companies before issuing a final order, she added. "We're now reviewing our options and considering out positions," she said. Centrica's offer expires at midnight on Thursday, but the companies could seek to extend that at a different price if necessary, she noted.

TRANSMISSION-FERC *(continued from page 1)*

ment proposed by the two companies that, according to the Feb. 23 order, would have allowed Trans-Elect to compensate Consumers for income taxes associated with the sale of the system.

The February decision also directed the companies to alter an easement agreement to give Trans-Elect more authority to use the land on which the transmission assets

are located to make system improvements.

In yesterday's order, which was not available at press time, the commission reversed itself and granted the tax adjustment, but reiterated that the companies still must change the easement agreement. FERC Chairman Pat Wood said the decision to reconsider the income tax adjustment is tied to changing the easement agreement.

But Wood also said that the decision denoted FERC's desire to see for-profit transmission companies flourish, a point seconded by Commissioner William Massey.

"We want this transaction to take place, number one," Massey said. "Number two, we made the changes because we want this transaction" to take place.

In a separate order, the commission allowed San Diego Gas & Electric to roll into its rates the costs associated with two proposed transmission-system upgrades (EL00-54). The order was not available at press time.

According to a FERC statement, the upgrades are tied to existing high-voltage transmission lines and would provide system-wide benefits to the entire system operated by the California Independent System Operator.

The enhancements could save SDG&E consumers nearly \$3-million per year, and ISO customers could save \$10-million per year as a result of the enhancements if the estimated 1,360 MW of new generation come online.

By approving the rolled-in rate, the commission is doing "what it takes to get transmission built" in California, Wood said.