

**Restructuring in the Rearview Mirror – a 10-Year Retrospective of California's
Doomed Experiment with Electric Deregulation. By The Energy Overseer**

Some Energy Service Providers Wash Out, but Others Are Ready to Jump In

San Diego-area utility customers and board members of the California Independent System Operator are not the only people feeling sea sick from the recent imperfect storms of tsunami-sized power price spikes. Several direct-access electric service providers (ESPs) appear to be taking on water, and in an attempt to stay afloat in the competitive seas, some are casting customers back to utility service.

Luckily, California's market provides returned customers with a life raft. They face no particular sanction of unfavorable tariffs or disparate treatment when they return to default service.

However, when I took some time this week to survey the market for survivors, I discovered a surprise. Although a few ESPs are indeed turning customers back to utility service, there appears to be another wave of new competitors ready to brave the tumultuous seas. Some are already signing up customers; others are waiting a little longer to see whether conditions will improve.

In particular, San Diego's exposure to the stormy marketplace may present an opportunity for marketers to attract new customers with more stable energy prices or services to help them manage consumption. San Diego Gas & Electric appears to be willing to find ways to expedite direct-access customer transfers and to match retail service providers with willing customers. The utility is reportedly even listening to ideas about providing a credit shield to marketers that will help them weather the power supply storms.

Established sellers of renewable power, such as GreenMountain.com, are also planning new campaigns to attract customers in San Diego. "We have been marketing in San Diego and we will continue to market in San Diego," said public affairs director Rick Counihan. GreenMountain has about 20,000 green power customers in SDG&E territory and promised "long-term loyalty" to them. Counihan said that customers who need protection from price spikes can sign up for a "budget billing option" when they call the company's customer service center.

GreenMountain and other ESPs are anticipating picking up some new accounts from the firms that may turn customers back to the utilities. The company has retrieved business from Toyota Motor Sales USA and Kinko's after those commercial accounts were terminated by others.

Julie Blunden, president of Western markets for GreenMountain, said, "We invite customers who are being forced back to their old utilities to choose GreenMountain. We're here for the long haul."

We've already reported that NewEnergy, one of the state's pioneering ESPs, recently turned about two-third of its load back to utilities. But NewEnergy made a point of retaining its San Diego accounts and has been making a second-round promotion of its "ensurance" stable price product, introduced last summer to general indifference and only a few takers. A recent meeting of prospective customers elicited much greater interest, according to Aaron Thomas of NewEnergy.

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NewEnergy may be able to provide some price stability because it has surplus power supplies under contract, as a result of returning customers in other parts of the state to utilities. Other marketers who tried to promote fixed- or flat-rate products earlier this year say customers are coming back for a second chance but that the sources of stable power dried up long ago.

An example is Commonwealth Energy, which last winter foresaw San Diego's coming problems and tried to convince several of its large customers to switch service to a flat-rate product with some added services. "The offer fell on deaf ears," said Jack Russ, Commonwealth's power resource director. "They were anchored by \$30/MW power and what we were offering was more expensive." When it was becoming clear even to the customers that energy was going to be costly and scarce this summer, some went looking for Commonwealth's offer. "But it's gone," Russ had to tell them. "I don't have it anymore." The company recently lost its contract with the San Diego Association of Governments (SANDAG), largely for this reason, Russ said.

Russ admitted this week that Commonwealth has been forced to turn back customers following the recent price spikes, although he would not reveal how many. It wasn't the price volatility itself that forced this action, he said, but that Commonwealth did not have sufficient credit to back up its power purchases as prices got higher. "If I'd had more credit, I could have kept them. Our credit line got eaten up and we had to shed load."

Things have calmed down now, he said, and the company would like to re-sign some of those customers, although he admitted it may be hard to win back their confidence. "We paid dearly to sign up those customers."

The other major rescission of direct-access accounts occurred in Sacramento, evidently for other reasons. ACN Energy was the only marketer active in the Sacramento Municipal Utility District's customer choice program. As part of a national shake-up, the network marketer has turned back 2,000 residential customers to SMUD. It is keeping 10 commercial accounts as well as continuing to serve customers in regulated utility territories, where it relies on green power credits to sustain profitability.

APS Energy Services also confirmed sending customers back to Pacific Gas & Electric and Southern California Edison. APS risk consultant Bob Anderson did not quantify numbers but said it was "not even half" of the company's customer base. The reason was not high prices, he emphasized, but an inability to gauge the risks of pricing based on the CalPX credit. This was the same reason that NewEnergy gave for its reversions, that increased use of block-forward contracts by PG&E and Edison has taken away rate transparency. "If you are writing contracts that are tied to an index that is less transparent each week, you can't mark against that price," Anderson said. "We need that transparency back again." The customers who were turned back to the utilities had pricing plans based on the CalPX price, he said.

Remarkably, even as some ESPs pull back operations, others are stepping into the fray. An example is Strategic Energy, an offshoot of the energy consulting firm based in Pittsburgh, Pennsylvania. Strategic has set up an office in Carlsbad and has signed up nearly 100 commercial accounts, according to Alex Galatic, director of power management.

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"We analyzed this market several years ago and decided against entering during the transition period because there was no way to make money," Galatic said. "Now that it is over in San Diego territory, we can offer to take on people who've been thrown from a fixed-price market into a variable price market. We can give them back some certainty in their energy budget by taking on the risk."

Galatic agreed with Russ on two points--that customers previously uninterested in price stability are now willing to listen, and that credit issues are a major factor in an ESP's fortunes.

"Credit is everything when you are buying in the wholesale market," he said. It is also one reason Strategic is concentrating on commercial customers.

Like Russ and others, Galatic would like to see some way to leverage the utility's gold-plated credit to cover direct-access customers. The utility has accounts receivable with a very high likelihood of collecting on those bills, and that translates into strong credit to purchase power on the wholesale market. When a smaller company talks with insurers or lenders about its portfolio, it gets a much less favorable reception, he said.

Another new entry has both a somewhat familiar name and a track record in California's energy market. The Friendly Energy Corporation should not be confused with Friendly Power Company, an ESP that went out of business two years ago after running into problems with the US Securities and Exchange Commission, said Tom Bowers of FEC.

The company started in the early 1990s as a wind-power producer and has evolved into an ESP. Its first retail contracts were signed in May, and it expects to begin providing service August 1. Although currently in an SEC-enforced "quiet period" because it will soon be listed on the NASDAQ over-the-counter bulletin board, Bowers said the firm has nearly 200 letters of intent with commercial and industrial customers in California and is also planning to enter the Arizona market to serve "hospitality and recreation accounts." It also wants to provide consulting services and support for other ESPs in billing and management.

Bowers sees potential in the California market where others are pulling back. "We've had people wanting to sell their book to us," he said. "We're being as selective as we can" **[Arthur O'Donnell]**.

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