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New Load Should Be Clean, Green, and Transparent, CPUC Proposal Says

Investor-owned utilities must first use the least polluting resources to satisfy customer demand and requisite reserve requirements over the next 10 years, with new power supplies procured through an open and competitive solicitation, according to a draft long-term procurement decision by a California Public Utilities Commission administrative law judge. Under the 211-page draft decision, costs factored into bids would include ones related to debt equivalence—the risk credit agencies associate with third-party contracts, which would be capped—and those associated with greenhouse gas emissions from new plants (see related story at page 5).

The tentative ruling by judge Carol Brown released November 17 also ties the next round of energy purchases to the issuance of the California Energy Commission's updated *Integrated Energy Policy Report* expected in 2006.

"[I]t is our intention that many more categories of planning information will be open and will be considered so in our review" of utility long-term procurement plans, states the proposal.

Requiring Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric bids to be open and transparent was a coup for the independent power producers, which had long complained about utility closed-door procurement, particularly with IOU affiliates. Mandating a transparent, competitive joint solicitation will "create a level playing field," said Steven Kelly, policy director for the Independent Power Producers.

While consumer advocates were somewhat pleased with the ruling, they were less than thrilled with having bids for utility-owned plants evaluated alongside independent generator bids. Ratepayers would get stuck paying a "risk premium" for every plant contracted, regardless of whether it is owned by the utility or an independent generator, said Mike Florio, senior attorney with The Utility Reform Network. "Cost-of-service generation is effectively eliminated as an option going forward, which may be fine when market prices are low, but could be a disaster when prices are high," he added.

The three utilities were reviewing the draft ruling and not ready to provide comments by press time. They submitted their long-term plans to the CPUC last July (*Circuit*, July 16, 2004).

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New Load . . . *continued from page 1*

The IOUs and independent generators have sparred over debt equivalence, the risk—real or perceived—related to buying power from merchant generators (*Circuit*, September 24, 2004). “We believe the regulatory environment in California is improving,” the draft ruling states, adding that independent power sources should not be disadvantaged.

Thus, a modified version of the Standard & Poor’s assessment of the financial risk of nonutility power is proposed, which would apply a 10 percent risk factor to power-purchase deals.

Another new twist on future resource solicitations is that independent third parties would be used to evaluate deals involving IOU power projects, those proposed by utility affiliates, and turnkey projects—those built by merchant generators but run by utilities.

One of the strengths and weaknesses of the long-term procurement ruling is that it aims to pull together several related proceedings, including ones on energy efficiency, debt equivalence, the renewables portfolio standard (RPS), transmission, and community aggregation. At the same time, it puts off thorny issues many expected to be addressed, including renewables commitments by PG&E and Edison and the upcoming expirations of the qualified facility contracts. After kicking over the decision on the RPS plans to the utility 2005 renewables plan (*R04-04-026*), Brown added that the 20 percent renewables mandate is a floor, “not a ceiling.”

Hashing out the specifics of these and related issues could turn this matter into a complex regulatory morass. “This could become the biggest regulatory proceeding in the world,” Kelly said. He and others fear there will be numerous hearings to hammer out agreed-upon rules, along the lines of what occurred with the RPS rulemaking. This would disadvantage many intervenors, who lack the resources to participate in various related hearings.

IOUs would be allowed to recover their net stranded costs, including exit fees, but the proposal declines to factor in how a capacity market might reduce those costs. The proposal adopts a framework for recovery for turnkey projects.

It finds that until 2010, PG&E and Edison generally have too much nonpeak power, but all three IOUs’ capacity needs are expected to take off in 2011, when the Department of Water Resources contracts expire.

It creates a presumption that after energy-efficiency and demand-side resources, IOUs will turn to renewables for future procurement and have to defend fossil energy purchases, in accordance with the state agencies’ joint Energy Action Plan. IOUs are directed to make full use of existing

plants at so-called brownfield sites before pursuing projects on undeveloped parcels.

The proposed decision also includes the following:

- Approves a portfolio of contracts of different lengths to keep utilities from becoming supply-heavy.
- Declines to set a procurement cap because of uncertainties, including whether customer choice will be revived.
- Notes that a methodology for estimating the cost of transmission upgrades will be refined by the CPUC and the Energy Commission.
- Approves PG&E’s plan to add 1,200 MW of reserve capacity in 2008 and another 1,000 MW in 2010 via solicitations.
- Allows Edison to rely largely on short- and medium-term power contracts until 2010.
- Concludes that SDG&E has adequate power through 2009, assuming it meets the state renewables mandate.
- Maintains that regulators will address next year how to handle QF deals that expire in 2006.
- Insists that a plant’s location and its impact on transmission be factored into solicitations.
- Notes that the CPUC set demand response that provided financial incentives for the three IOUs of 3 percent of annual peak demand in 2005, and an additional 1 percent in 2006 and 2007 (*D03-06-032*).

Responses to the draft ruling are due at the commission December 6.

(*R04-04-043*)

—Elizabeth McCarthy

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The 3,000-Mile View **FROM WALL ST. TO CALIFORNIA**

Broadband over Power Lines: What's California Waiting For?

by John Dizard

For a state supposedly obsessed with pursuing the next new thing, California has been pretty slow to pick up on broadband over power lines (BPL). BPL could make it possible to use the ubiquitous grid to get to near-universal broadband coverage.

Maybe it's the bad name "innovation," acquired in the electricity business during the power crisis three years ago. Right now, though, the dull red state of Ohio is ahead on developing BPL for the consumer, with the largest successful trials of the technology taking place in Cinergy's service area in Cincinnati.

This is odd, since the Asia-facing tech freaks in California are generally aware that Korea and Japan are now outpacing the U.S. in diffusing broadband access to the home. The low costs of the build-out, which in the larger test markets in the East are between \$150 and \$250 per home, could

lead to a price war for broadband service. This is exactly the outcome the Federal Communications Commission and the Federal Energy Regulatory Commission are seeking.

The sleeper source of demand for BPL could be the utilities. Automated meter reading (AMR), demand-side management (DSM), supervisory control and data acquisition systems (SCADA), substation monitoring, outage localization and detection, and monitoring and control of capacitors and regulators all require data networks that today are either patchy and kludged together, or simply not there. Given the lead times for generation or transmission line development in the state, not to mention high fuel prices, DSM and dynamic management of the grid may be the best way to get the system through the next several years.

While the first couple of generations of broadband that comes over power lines had slower data transmission rates than cable modems, the new equipment that will be on offer next year should provide 54 megabits per second of two-way traffic to the home, a pipe fat

enough for not only streaming video, but also the fastest gaming applications.

It's not as if there isn't any work being done on BPL in California, but demonstration projects such as that being undertaken by Pacific Gas & Electric run into the state investor-owned utility's battered-child syndrome. The merest hint of diversification into unrelated businesses or, God forbid, innovation has the rating agencies and consumer advocates curling their lips in snarls. The IOUs respond by huddling in corners to protect themselves from blows.

Recently, Wall Street has been doing its part to discourage BPL in California, with the rating agencies, led by Standard & Poor's, warning against potential balance sheet risks.

However, they've left the door open for the development of BPL networks to serve the "core applications." (Hint to IOU project managers: call your plan "core." "Innovative" is bad.)

Dimitri Nikas of S&P's electric utility unit, referring to BPL used for such purposes as AMR and DSM, says, "Since it's part of their core business, that would be benign at worst."

H. K. Sui, a PG&E engineer working on the company's BPL pilot projects, says, "The technology is pretty much proven. The main thing is to get the regulatory issues ironed out. We need to validate some of the economics."

Sui sees "a tremendous benefit" from using the BPL infrastructure to transfer the signals needed for automated meter reading and supervisory control and data acquisition systems, which allows remote control and monitoring of transmission and distribution. "However, the traffic we would be carrying for data and monitoring is a small percentage of the capacity of a BPL system. You are talking about a fraction of 1 percent for the monitoring. But that signal is so criti-

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**Imagine what it could do on
peak hours in California.**

Juice . . . continued from page 3

cal to make sure the energy is reliable and safe.”

Sui and his counterparts throughout the country have, in effect, designated Hawaiian Electric as the lead utility to do the development work on core applications of BPL. “They’re the lead in organizing and coordinating all utilities to think about the core applications of BPL, and to get them to agree to the same standards.”

You might think that Hawaii is an odd place for tech innovation, but there are good reasons for it to be a test bed. Most of Hawaii’s electricity is generated by very expensive fuel oil, which means that residential rates in some service areas can average over 22 cents/kWh, the highest of any state. A high fraction of electric demand comes from resistance water heaters, which are well adapted to DSM. Finally, there is

Hawaiian Electric’s senior vice president of energy solutions and chief technology officer, Karl

Stahlkopf, who came to Hawaii from the Electric Power Research Institute in Palo Alto and has strong backing for his R&D work from management and the Hawaiian Public Utilities Commission.

According to Stahlkopf, “We have divided uses of BPL into three categories. First, there are the on-the-grid applications, meaning how to better operate the transmission and distribution system. Second, there are the customer-premises applications, such as AMR and DSM. Finally, there are the broadband applications for the customers.”

For the grid applications, Stahlkopf has initially set up systems for monitoring substations, such as checking switch positions, examining the temperatures of bearings and lines, and intrusion detection. For applications such as monitoring the efficiency of transmission and distribution, “The issue is finding Internet Protocol addressable devices. Now there are devices that may not be IP, but they could be,” he said. “It’s a question of what’s cost-effective, what’s commercially available, what needs to be developed, and what can be modified quickly.”

Stahlkopf’s core applications of BPL projects are being paid for through Hawaiian Electric’s R&D budg-

et. The line item for the pilot is only \$2.7 million, which means suppliers have to help with the development work. Stahlkopf believes there’s a big payoff to be had in Hawaii from customer-premises DSM applications. “We have a very aggressive DSM and conservation program in Hawaii, and BPL can do a lot for us there,” he said. “We’d like to be able to go in and, on high-peak-load periods, demand cycle all the water heaters and air conditioners. Most hot water tanks here are so big that you can cycle customer heaters in an hourly rotating scheme that they wouldn’t even notice. For air conditioning, you could either cycle them on or off or vary the temperature setting.”

For the AMR application, Stahlkopf’s problem is getting the meter manufacturing costs down. “We need a \$65 IP addressable meter. Right now they are in the \$350 price range. We have to convince the

manufacturers that there’s enough of a market out there to make it worth their while to do the work.”

Replacing expensive hydrocarbons with cheap data makes sense.

Imagine what that could do on peak days and hours in California.

David Shpigler, whose New York-based Shpigler Group is a leading BPL consultancy for the industry, says that “There hasn’t been as much work done on the core applications for BPL as there has on high-speed broadband for the customers. Using BPL for the core utility applications can do a lot for peak shaving. The economic returns are particularly good if they can be layered on top of the provision of broadband to the utility customer.” From the analyses he’s done for utilities, Shpigler believes utilities can save at least \$5 per month per customer. “That would be compelling, but the generation contracts have to be written so it’s possible to take advantage of the savings.”

Given that high fuel costs will be with the utility industry for the foreseeable future, it probably makes economic and financial sense to replace expensive hydrocarbons with cheap data. Convincing the rating agencies, consumer advocates, and utility managements that it’s worth their while to try will take some work. Probably less work if California’s strained system leads to summer blackouts.

—Circuit columnist *John Dizard* also writes for the Financial Times.

Generators Pressured to Report Greenhouse Gas Emissions

As California utilities warm up to the need to track and reduce greenhouse gas emissions, most independent power producers have yet to come to the table, but their days are probably numbered. Generators soon may face increased pressure to join California's efforts to combat global climate change.

With the exception of the homegrown company Calpine, merchant generators—primarily owned by out-of-state corporations—have yet to join the centerpiece organization of the state's burgeoning global warming program, the California Climate Action Registry, created by statute in 2001. The registry's goal is to develop rigorous and consistent standards for companies to use in reporting their emissions of carbon dioxide and other greenhouse gases. This will allow firms to clearly demonstrate compliance with future emission reduction requirements.

"A Duke Power or Mirant are national and don't feel any California heat yet," said Bud Beebe, liaison to the registry for the Sacramento Municipal Utility District. "Once they have their long-term contract, they melt into the woodwork."

A spokesperson for Mirant Corp. replied that the company outlines its carbon dioxide emissions for each of its power plants in regularly published annual reports. He also acknowledged that the company is not participating in the registry. A California spokesperson for Duke Energy said his company lacks sufficient staff to report emissions to the registry.

The situation for merchant generators may soon change.

Russian ratification of the Kyoto Protocol will bring the treaty into force around the world early next year. Since many generators—including Mirant—operate internationally, they will face the need to reduce CO₂ emissions even though the United States has not ratified the international pact.

"We still have to be in the world, and we still have to deal with greenhouse gases," Beebe said. The treaty could put companies that do not comply, even in the U.S., at risk of liability lawsuits brought in international courts that are "several orders of magnitude greater than tobacco," said Joel Levin, vice-president of business development for the registry.

In California and the U.S., foreign-owned utilities and power producers may be the first to heed the Kyoto Protocol.

"Our overall strategy is preparing for a carbon-constrained world," said Bill Edmonds, environmental policy director for PacifiCorp. The Portland, Oregon-based utility is owned by Scottish Power and serves a slice of Northern California. "It's important we get data from our long-term contracts so we can feed that into our data."

Some of the state's energy agencies are taking climate change seriously. This week, California Public Utilities Commission administrative law judge Carol Brown proposed that the state's investor-owned utilities consider the

cost of carbon dioxide emissions when weighing long-term power-purchase agreements. PacifiCorp already does so, and Pacific Gas & Electric is planning to follow suit.

Brown also opened the door to the commission eventually setting a "carbon cap" for investor-owned utilities to minimize their contribution to climate change.

Under her proposed decision, the utilities would have to include a "carbon adder" when determining the least-cost bid for power-purchase contracts. The adder would range from \$8 to \$25 per ton of carbon dioxide emitted by bidders, or about 0.35 cent per kilowatt-hour for gas power and 0.85 cent/kWh for coal power.

An analysis tool only, the adder would not necessarily raise the cost of electricity, except when renewable power providers bid at a cost somewhere between the least-cost fossil-fuel provider and the cost of that fossil-fuel-based power bid after including the carbon adder.

Utilities could begin using the adder as early as December 16, when the commission meets to consider the proposed decision.

However, to successfully implement the plan, power producers may need to join the state's utilities in regularly reporting their greenhouse gas emissions to the California Climate Action Registry. Under the registry's power/utility industry reporting protocol adopted last month, utilities are to report their direct emissions from generation facilities. They also are to report their emissions based on total electricity deliveries, including emissions from purchased power. Without detailed and consistent data from merchant generators, they will have to use average factors that may distort actual emissions numbers.

This will make it difficult for the state's utilities to pass the third-party audits needed to obtain registry certification of their emissions reports, according to Beebe. Down the road, it may create complications in demon-

Utilities are coming to grips with global warming.

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SoCal Gas Charged with Market Manipulation

Southern California Gas manipulated natural gas prices and must refund customers nearly \$29 million in “ill-gotten” gains, according to a draft order by a California Public Utilities Commission administrative law judge. Judge Charlotte Terkheurst’s November 16 findings, which the CPUC says will be delivered to the state Attorney General’s Office, stem from an investigation into spikes in the price of natural gas delivered along the California-Mexico border during the energy crisis.

The utility loaned gas earmarked for small ratepayers starting in the summer of 2000 to large energy consumers but failed to store adequate reserves for core customers, which increased reliance on winter peak supplies. SoCal Gas “knowingly contributed to supply constraints and effectively withheld gas supply” when it chose not to withdraw stored gas for residential and small business customers, asserts Terkheurst in the draft order. In addition, SoCal Gas exercised market power by profiting from selling gas during price spikes and tightening supplies, the judge concluded.

She proposed that SoCal Gas refund \$28.8 million from an incentive program that rewarded the utility for purchasing gas that was priced below market rates.

“The proposed decision is a politically motivated hit piece orchestrated by only one of the CPUC’s five commissioners,” said Ed Van Herik, SoCal Gas spokesperson. He pointed to commissioner Loretta Lynch, who has overseen the border price-spike probe. Trina Horner, Lynch’s chief of staff, said Terkheurst was responsible for crafting the document and coming up with its findings.

“We believe that the proposed decision is seriously flawed and will not be upheld by the full commission,” Van Herik added. SoCal Gas loaned out gas to noncore customers and other parties for a fee, he explained, because futures prices were lower than the summer price. SoCal Gas expected that prices would go down in the winter months and not skyrocket, he said.

The Attorney General’s Office confirmed it would evaluate the commission’s findings as part of a probe into the conduct of Sempra and other market participants during the energy crisis, said Tom Dresslar, spokesperson for the AG’s office.

The border price-spike draft decision comes months after the commission appeared to give Sempra, SoCal Gas’s parent company, an edge over other liquefied natural gas suppliers. It authorized SoCal Gas & SDG&E to establish LNG access points for the Baja California gasification plant Sempra is developing with partner Shell. Whether Terkheurst’s order could put a damper on Sempra’s designs is a looming question.

The Sempra affiliates are expected to ask the commission to roll into their rate bases up to \$300 million of pipeline upgrade work required to move LNG in their systems (*Circuit*, October 8, 2004). In addition, they are

required to file a proposal for a joint gas transportation rate to move LNG over their systems before the end of the year.

The draft decision is “a politically motivated hit piece.”

“What could rock the investment community” is a definitive statement from the Attorney General’s Office that these regulated affiliates are not allowed to enter into LNG supply contracts with parent company Sempra or a parent company’s joint venture, said Bill Powers, Border Power Plant Working Group chair. The group is part of a coalition pressing regulators to reconsider their vote on LNG policies.

Powers noted that the coalition’s petition for rehearing warns that allowing Sempra to control LNG through its distribution by affiliates opens the door for abuse of market power. The draft decision underscores these hazards, according to Powers. The second phase of the border price-spike investigation will consider whether Sempra influenced SoCal Gas and San Diego Gas & Electric. It will also evaluate whether they contributed to soaring border prices and shared confidential information.

As for Sempra, the company maintains that the CPUC’s investigation of the energy crisis should not affect plans for the Baja California facility to receive LNG by 2008. That project represents a significant new source of competitive natural gas for Mexico, California, and the Southwest, said Art Larson, Sempra spokesperson.

The proposal is scheduled for a vote at the commission’s December 16 meeting.

—Lisa Weinzimer

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Abraham Departs DOE, Leaves Muddled Legacy

Having tendered his resignation to President George Bush, outgoing Department of Energy head Spencer Abraham has to figure out what he's going to do next—but the impact of his work over the past four years appears clouded as well. Abraham defended coal and nuclear power yet also oversaw boosts in fuel-efficiency efforts and increased production tax credits for alternative energy. Many in the industry, however, regard the secretary as a lightweight beholden to Vice-President Dick Cheney and his secretive policy machinations.

"He didn't leave much of a footprint," said V. John White, executive director of the Center for Energy Efficiency and Renewable Technologies. "Not much got done at a time when the oil and gas markets are in turmoil."

In his November 14 letter of resignation to Bush, Abraham touted nuclear power as a viable long-term energy source and glowed over the administration's "FutureGen" program, a planned \$1 billion initiative aimed at creating a "near-zero emission" clean-coal plant. Its goal is to produce technology that would allow carbon dioxide produced by a 250 MW coal unit to be sequestered underground.

Abraham stressed the importance of coal and its continuing prominence in the U.S. energy landscape during a speech he gave November 10 to the National Coal Council. "Far from being the environmental villain that critics would have us believe, coal is indeed America's most important strategic energy resource," he said.

Renewables advocates point out that coal can be both—villain as well as vital. While trapping carbon dioxide underground may or may not prove viable (*Circuit*, November 12, 2004), another method being studied could turn the greenhouse gas into emission-free carbonate rock.

While some note that while the prospect of clean-coal/gasification plants is drawing interest, some 100 pulverized-coal facilities remain in various stages of proposal around the country, rendering "clean" projects a small potential bright spot overshadowed by conventional, pollutant-heavy coal generation.

Green power representatives agree that extending production tax credits for renewable resources reflects positively on Abraham's tenure. The federal incentives, approximately 1.5 cents/kWh, lapsed at the end of last year but were continued through 2005 via the tax package approved earlier this year in HR 1308. According to the American Wind Energy Association, the move keeps on track \$3 billion in wind projects around the U.S.

In addition, fuel sources such as biomass, solar, and geothermal energy are now eligible for credits with the passage of HR 4520 last month.

Abraham's focus on energy efficiency and the potential use of hydrogen power did not sit well with his masters, said John Coequyt, Greenpeace energy policy specialist. "[Abraham] did some positive things to save natu-

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Emissions . . . *continued from page 5*

strating compliance with any standards.

To solve the dilemma, said the climate registry's Levin, PG&E and other state utilities are interested in requiring power wholesalers to regularly report detailed greenhouse gas emission data to them following the reporting protocol outlined by the registry.

PG&E has joined with a small group of utilities in Washington, D.C., to support S 843, sponsored by Senator Tom Carper (D-Delaware), which would set a cap on carbon dioxide emissions and allow for trading of emissions credits. The measure may include reporting requirements for power producers in future electricity-purchase contracts, said Wendy Pulling, director of environmental policy for the company.

While Carper's bill, expected to be reintroduced in the new Congress, would make only a modest reduction in car-

bon dioxide emissions, it is indicative that many utilities are coming to grips with the problem of global warming.

"There is an important recognition that climate change is an important policy issue," Pulling said. The type of consistent and rigorous emission reporting standards developed by the registry will be essential to demonstrating compliance with any future greenhouse gas emissions reduction standards, she added.

In another sign of pressure on merchant generators, the California Energy Commission is beginning to require new power plant operators to report their greenhouse gas emissions (see related story at page 5).

"I suspect we're going to get a lot of independent power producer participation in the future," said Levin. "You're going to have to deal with this stuff."

—William J. Kelly

Nukes Still Not Safe from 9/11-Style Attack, Says Watchdog

Federal regulators must revise their standards for protecting nuclear facilities from potential terrorist assaults and other high-danger accidents, according to a petition by industry watchdog groups. Published in the *Federal Register* (volume 69, number 215) and released for public comment this week, the petition urges the Nuclear Regulatory Commission (NRC) to adopt security guidelines that are more responsive to destruction wrought by terrorists.

Spearheaded by the Los Angeles-based Committee to Bridge the Gap (CBG), the move comes on the heels of Energy Secretary Spencer Abraham announcing his resignation (see story at page 7). The secretary has been a staunch defender of atomic energy.

The rulemaking petition asks regulators to encourage nuclear plant owners to prepare for possible attacks—by land, water, or air—equal in force and coordination to those carried out by 19 terrorists on September 11, 2001.

Another request calls for more tangible protection: a network of steel I-beams that would ring each nuclear facility and be interlaced with steel cabling. The system, referred to as “Beamhenge” in the filing, would cause planes that are set on a deliberate crash course with a nuclear facility to be “torn up” and thus shield sensitive areas from harm.

Such preventive measures are long overdue, according to Paul Gunter, director of the reactor watchdog project for the Nuclear Information and Resource Service (NIRS). “You’d think that three years after September 11, the nuclear industry—with all its inherent radiological danger—would be protected from attacks through the air,” he said. “That’s not the case.”

In Gunter’s view, the nuclear industry believes that security measures of this type are “someone else’s responsibility.” He noted that despite the airplane-led attacks on the World Trade Center and the Pentagon, aircraft are still free to travel over areas such as Pacific Gas & Electric’s Diablo Canyon nuclear plant and Southern California Edison’s San Onofre Nuclear Generating Station.

According to the Nuclear Energy Institute, its member utilities and nuke owners pass the requisite security test. The institute released a statement in late October declaring that 103 nuclear power plants operating in 31 states have met the NRC’s October 29 deadline for activating “more stringent security measures.” The size of paramilitary forces used at nuke sites has increased, as well as the num-

ber of security posts, the distances by which vehicles must be kept from site facilities, and the number of site patrols.

Nuclear regulators insist that all threats, including those posed by potential terrorists, are considered under the NRC’s review of nuclear plant safety. Materials on the commission’s Web site recall that after 9/11, the agency called on plant owners to shore up physical protection of facilities, as well as improving preparations for emergency and performing safety studies. These and

other prompts have made nuclear plants “among the most robust and well-protected civilian facilities in the country,” the commission claims.

The Committee to Bridge the Gap’s petition maintains that even

nuke regulators concede that plant owners are still not required to guard against airborne attacks or prepare for a September 11-sized force of marauders. Moreover, the degree of threat for which nuclear facility owners must plan—a level determined by regulators—remains secret. “Given the controversial history of cost-driven nuclear security, there is no public confidence” that the threat determination is in keeping with modern terrorism onslaughts, according to the petition.

Also before nuclear regulators is an existing petition asking the NRC to address the vulnerability of spent-fuel pools at U.S. reactor sites. Petitioners, including Gunter’s NIRS, say that at 32 nuclear power plants, spent fuel is stored on the roof of reactor buildings, which could lead to tens of thousands of deaths if airplanes were to crash into the facilities and accidentally ignite the radioactive waste. The petition for emergency action would have the NRC encourage reinforcement of the structures housing the spent fuel or require that noncompliant reactors be closed.

The commission maintains that spent-fuel pools are hard to damage and that even if they are compromised, the spread of potentially lethal materials from the pools is taken into account by emergency preparedness plans already in use. “Based on analysis performed to date, staff has not identified any spent fuel pool accident issues” that would necessitate changes in the NRC’s planning process, according to on-line information kept by the agency regarding potential terrorist activities.

Gunter said the petition, delivered in August, has been officially accepted by the commission and is under review.

Comments on the Committee to Bridge the Gap petition for rulemaking are due January 24, 2005.

—Jason Mihos

The NRC’s threat level remains secret.

Abraham . . . continued from page 7

ral gas through increasing efficiency, which was not viewed favorably” by the Bush administration, he said.

The Nuclear Energy Institute praised the secretary for his “invaluable” work in securing Yucca Mountain, Nevada, as a repository for long-term radioactive waste storage. Abraham, said the institute, advocated for nuclear power “more than any energy secretary in recent administrations.”

But this stance appeared to contradict Abraham’s efforts to quell the buildup of nuclear materials outside the U.S. “There seems to have been a disconnect. He didn’t push nonproliferation in this country,” said Michele Boyd, Public Citizen legislative director for energy.

Paul Gunter, director of the Nuclear Information and Resource Service’s (NIRS) reactor watchdog project, painted Abraham’s role in starker colors. “Frankly, the nuclear industry couldn’t have found a more solid and biased friend than the current secretary,” he said. By acting to champion nuclear energy, Abraham helped steer a “return to the largest managerial disaster in business history,” Gunter claimed.

Meanwhile, American nuclear facilities remain vulnerable to possible terrorist attack, he continued. Two petitions now before nuclear regulators seek to close this alleged breach (see story at page 8).

Reports of who will succeed Abraham at the Department of Energy include an assortment of candidates, including:

- Kyle McSlarrow, deputy energy secretary and reputed to be well versed on nuclear security and nonproliferation.

- Tom Kuhn, president of the Edison Electric Institute and a key fund-raiser for Bush’s reelection campaign.
- John Breaux, a retiring U.S. senator (D-Louisiana) said to have strong ties to the oil and natural gas industry.
- Representative Heather Wilson (R-New Mexico), who sits on the House Committee on Energy and Commerce.

The consensus view appears to be that the president will choose a person with greater policy-making strength, perhaps someone who can lead a renewed drive toward national energy legislation (see story at page 10). Whether Abraham’s successor will stake out an independent path is open to speculation, though Gunter and others find it unlikely.

“Why not just put Cheney in charge and cut out the middleman?” Gunter asked.

As for Abraham’s next steps, some speculate that he will become a lobbyist for the auto industry. During his one-term stint representing Michigan in the U.S. Senate, Abraham raked in \$722,950 from auto manufacturers, according to the Washington, D.C.–based nonprofit research outfit Center for Responsive Politics (CRP). He lost his reelection bid in 2000 before being picked to lead the Department of Energy.

Abraham also took in \$304,793 from oil and gas industry players, according to the CRP.

The secretary will continue to serve until his successor is named.

—Jason Mihos and Elizabeth McCarthy

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Reworked Federal Energy Bill Expected in 2005

The failure to advance a federal energy bill was said to be one of the reasons Department of Energy head Spencer Abraham was given the boot this week, but few expect the legislative package to go anywhere during Congress's just-begun "lame duck" session.

Though there have been attempts to attach the massive measure—referred to by some as the "Leave No Lobbyist Behind Act" (*Circuit*, November 21, 2003)—to the omnibus appropriations bill, chances of such a move succeeding are slim. Curt Heber, former Federal Energy Regulatory Commission chair, wrote President George Bush on November 15 to urge that the energy bill be taken up before the holidays. Heber, a lobbyist for Entergy, an energy company in the South, said congressional delegations have been pushed "to work for immediate passage of energy legislation" and "not wait until next year."

Sections of the energy bill, such as the electricity title or reliability language, may be added to the omnibus package during the final round of the 108th Congress, but the proposals appear to lack the necessary votes.

It is more likely that the energy legislation will be taken up next session. The Senate gained three Republican members, key to blocking a filibuster by Democrats—assuming the current senators don't change their votes. The Senate is leaning toward creating a new

energy package, while the House may push to break the unwieldy legislation into more manageable parts, with provisions enjoying bipartisan backing moving ahead first. The current thrust of the nation's energy policy, however—more drilling as well as gas, oil, coal, and nuke development and subsidies—is not expected to change.

Topping the energy legislation list is the repeal of the Public Utility Holding Company Act passed in 1935 to thwart utility monopolies. Energy legislation may also include a production tax credit

for nuclear power and reauthorization of the federal nuclear insurance program. The highly controversial provision that would allow drilling in the Arctic National Wildlife Refuge may be placed in a separate legislative mechanism, such as the budget reconciliation bill, to protect it from a filibuster, one lobbyist surmised.

The administration's approach to energy policy has been and will continue to be pure "demagoguery," said John Coequyt, Greenpeace energy policy specialist. "The energy bill didn't pass because it didn't deal with issues that the American people care about," including lower electricity costs, reduced greenhouse gas emissions, better air quality, and improved auto gas-efficiency standards, he added.

—Elizabeth McCarthy

Repeal of PUHCA.

SMUD Plans Large Wind Farm Expansion

The Sacramento Municipal Utility District board agreed November 18 to buy a 2,765-acre parcel in Solano County, which will allow the muni to expand its wind farm. The land, the price of which is not to exceed \$12 million, could potentially house 75 MW of additional wind turbines, according to Dace Udriș, SMUD spokesperson. Purchasing the property allows for the further growth of the muni's in-house wind portfolio.

The property at issue lies in the Montezuma Hills and adjacent to the 3,300-acre site that is home to SMUD's current batch of windmills, whose capacity totals 15 MW. The muni plans to boost its wind power on the existing site by an additional 85 MW, reaching 100 MW by the spring of 2006. If the new plot is fully developed, SMUD will be churning out up to 175 MW of wind energy.

The cost of installing wind power is estimated at \$1,000/kW, which does not include site upgrade costs, said Jim Tracy, SMUD chief financial officer. Thus,

expanding the existing wind farm by 85 MW would cost roughly \$85 million. The ultimate size of SMUD's existing wind energy development is, however, contingent on the bids the muni receives, which must include time warranties because of risks associated with the turbine technology, according to Tracy.

—Elizabeth McCarthy

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CEC Staff: Recertify Los Esteros, Drop Conversion Deadline

Allowing Calpine to continue operating its 180 MW simple-cycle Los Esteros facility instead of converting it into a 320 MW combined-cycle plant by next summer would not cause significant environmental, health, or transmission impacts if recommended mitigation measures are followed, the California Energy Commission staff concluded in its final assessment November 15.

During the energy crisis, the commission permitted the peaker project in north San Jose in record time on the condition that Calpine convert it to a more efficient facility within three years of its certification date. But this week's recommendation by commission staff would waive that mandate and recertify the project to avoid shutting it down for repowering, said Chris Davis, CEC spokesperson.

Commission staff did not recommend a deadline for converting the facility but suggested instead it be allowed to run on an "indeterminate" basis, Davis said. Calpine obtained the emergency certification in July 2002 and under current rules would have to revamp the plant by July 2005.

The San Jose-based company intends to build a combined-cycle unit—adding heat-recovery steam equipment—because it would produce considerably more power with the same amount of gas. Calpine is separately seeking a license from the Energy Commission for the facility upgrade.

Calpine still intends to upgrade plant.

The staff assessment pointed out that the original certification's requisite reductions of particulate matter (PM) emissions have been only partially satisfied. Calpine has offset only 6.13 tons a year of PM10 instead of the full 17.5 tons per year. Under a proposed mitigation, Calpine would trade 3 pounds of removed sulfur oxides for every pound of PM10 by which it falls short of the needed reductions. Last month, staff suggested that the 180 MW project that went on line in March use a zero-discharge wastewater system (*Circuit*, October 15, 2004).

Last year, the Energy Commission recommended that the state require certified plants to report their greenhouse gas emissions. Staff want the Los Esteros permit to include mandatory carbon dioxide and methane emissions reporting.

Regulators at the Energy Commission treated another project favorably this week. Under a proposed decision released November 16, they said that Riverside Public Utilities' 96 MW peaker should not be subject to the full permitting process because environmental impacts are not expected to be major. The tentative ruling on the controversial facility invokes the agency's small power plant exemption, which applies to units that are less than 100 MW and are relatively clean.

The California Unions for Reliable Electricity and other labor unions had intervened in the matter, and the city of Riverside agreed to pay prevailing wages for work done on the plant. However, the city did not sign a labor agreement for the \$25 million project, concluding that the job was relatively "short-term" and involved a small number of employees.

The full commission is expected to approve the certification December 15.

—Elizabeth McCarthy

Calpine Adds Air-Quality Monitor Devices Near Metcalf

Succumbing to ongoing pressure from the city and community members of San Jose, Calpine agreed to place additional air-monitoring equipment within two miles of the 600 MW Metcalf power plant, expected to be on line next June. "We will add a couple of monitoring stations to reassure the neighbors" about the plant's emissions, said Lisa Poelle, Calpine spokesperson.

The city will decide the exact locations of the stations, but one will be placed north of the facility and another south. The equipment, which will test for carbon monoxide, nitrogen oxides, and particulate matter (PM) on a continuous basis, is expected to cost more than \$100,000, Poelle said. Calpine had resisted testing for PM10, she noted, because the "proper way to monitor" emissions is at the smokestack—but residents still worried about the pollutant.

Background pollutant levels will be measured before the plant begins operating, but the monitoring equipment will be unable to distinguish between sources of pollution—from automobiles, manufacturing, or Metcalf itself. Neither the California Energy Commission nor the Bay Area Air Quality Control District requires the additional pollution monitors.

The project faced considerable opposition during the permitting phase, led by computer networking firm Cisco, but was certified by the Energy Commission in 2001.

—E. McC.

FERGUSON'S FORECAST LNG: How Will It Affect Gas Prices?

As forecast, the heating season has officially begun with the first withdrawal of gas from storage reported yesterday for the week ending November 11. With ample amounts of gas stored and oil prices falling, gas prices continued to soften, closing yesterday below \$7/MMBtu for the first time since mid-October.

A looming question is how increasing LNG imports will affect gas prices in the long term. A recent gas price forecast from R. W. Beck has prices falling to \$4.30/MMBtu by 2008 and staying at that level indefinitely. I surmise that they assume that ample quantities of LNG will be imported into North America by 2008 and that LNG will set a market price of \$4.30.

Currently, LNG imports account for about 3 percent of consumption, and the U.S. Energy Information Administration projects this rising to 10 percent by 2010. If domestic production and consumption were to stay at

current levels, the additional LNG would, indeed, drive prices down. Recent high prices have kept consumption from increasing but have not stopped U.S. production from dropping a few percent in the last several years.

As LNG puts downward pressure on prices, domestic production will decline more rapidly, while consumption would be expected to increase—putting upward pressure on prices. The price at which upward and downward pressures will balance is not at all clear.

It's too early to claim that LNG will have solved all our gas problems by 2008. We don't know how fast receiving terminals will be built, how much LNG will be available for import, and at what price, or how additional LNG will affect domestic production and consumption. We'll have to wait until 2008 to see whether R. W. Beck was right.

—Dr. Rich Ferguson, Research Director, CEERT,
rich@ceert.org.

CEC Surcharge Order Saves Ratepayers a Nickel a Month

The California Energy Commission shaved a fraction off the surcharge levied on California electricity users to fund several state agencies, which is estimated to save average households about 5 cents a month. The commission sets the surcharge rate annually to help fund itself, the Department of Water Resources, the Electricity Oversight Board, the Department of General Services, and the Board of Equalization. The rate was lowered from 0.03 cent/kWh to 0.022 cent/kWh at the energy commission's November 17 meeting.

"Excess funds" allowed the rate decrease, said Randy Roesser, CEC budget officer. In fiscal year 2003-04, the fund collected approximately \$58 million, he said. Roesser estimates that the California Power Authority, which is now defunct, owes the fund between \$7 million and \$10 million for an earlier loan.

After the power authority closes its books at the end of this month, remaining funds will be used to partially repay the debt, but no one expects the loan to be fully repaid, according to Roesser. If the power authority had been able to pay back the total amount owed, the surcharge might have been lowered further, he added.

In other news, a grant of \$400 million was approved to support the National Building Controls Information Program (NBCIP). This project provides sensors and other devices to increase efficiency of air conditioning systems for commercial facilities. According to NBCIP, building energy use accounts for 36 percent of total energy consumption in the United States.

Later in the meeting, Bob Therkelsen, CEC executive director, told the commissioners that he briefed Governor Arnold Schwarzenegger about the potential for electricity shortages next summer. The day before, Therkelsen discussed the strategies the commission is endorsing to alleviate shortages, such as shoring up aging power plants. The governor didn't signal a preference for any strategy, he added, but wanted an overall picture of how to avoid supply shortfalls.

Several commissioners stressed the need to put in place a dynamic pricing tariff for large customers by next summer and recommended that this issue be given attention at the December 7 Energy Action Plan meeting.

—Lisa Weinzimer

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Shorts Circuit

The Federal Energy Regulatory Commission approved submissions by 10 natural gas index price publishers, who met the commission's July 2003 index reporting standards put in place after bogus reporting came to light. FERC's Nov. 18 order allows the approved indices to be "reliably used as part of the commission-approved tariffs," according to a commission statement. Federal regulators noted they will continue to monitor wholesale price information for accuracy and reliability. Since adoption of the standards, the number of companies reporting their transactions has risen, and there has been "improvement in the systems by which prices are also reported," according to FERC.

The Los Angeles Department of Water & Power has joined the ranks of California utilities to offer rebates for efficient motors installed by industrial customers. Electric motors represent about 63 percent of industrial electricity use, according to the department. Replacing old ones with new, energy-efficient models can cut motor electricity consumption by anywhere from 11 percent to 18 percent. The department has not calculated what percentage of its total load is due to industrial motors, but a statewide study in 2001 showed that industrial motor systems consume 17,086 gigawatt-hours of electricity. Replacing those motors with efficient models could save 2,463 GWh, said Emily Dahl, manager of the Motor Decisions Matter Project in Massachusetts. Savings in Los Angeles could be substantial because the city is highly industrialized, she said. Industrial customers should find that

the department's rebates—which range between \$25 and \$630—help them achieve a payback period of less than two years, said Reynaldo Reyes, supervisor of commercial programs at the department. Large industrial plants typically spend more than \$1 million a year on electricity to run old, inefficient motors, the department said, making savings of more than \$100,000 a year possible. Reyes said that if the incentives prove popular, the department would be able to turn the motor rebates into an ongoing program.

LADWP's former public relations firm submitted a \$24 million tab to the muni, \$4.2 million of which was questionable, reported Los Angeles auditor Laura Chick. Chick's audit of Fleishman-Hillard, released Nov. 16, found "thousands of hours of unsupported and unsubstantiated services as well as unallowable office expenses, questionable sponsorship commission payments and misrepresented subcontractor costs."

Duke Energy and the city of Morro Bay have yet to resolve their differences over the costly outfall lease for the company's Morro Bay plant, which expired Nov. 17, but both sides appear to be willing to work out their differences. "The city council has not taken a position to go hammer Duke," council member Bill Peirce told Knight Ridder. Pat Mullen, Duke spokesperson, said that the parties would like to settle their differences. The financially strapped Duke does not want to pay the city \$50 million for a lease

continued on page 14

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Shorts *Circuit* . . . continued from page 13

on the outfall pipe, which carries wastewater across city land, unless the plant modernization goes forward (*Circuit*, Oct. 15, 2004).

The U.S. Department of Transportation was sued last week by a group of public-interest organizations for loosening rules governing the transport of radioactive wastes. The suit, filed in Northern California federal district court, claims that exempting various amounts of radionuclides from radioactive labeling and tracking controls creates needless risks. “Removing existing requirements for labeling in transit will make it easier for other agencies to let nuclear wastes get out into commerce,” said Dan Hirsch, president of the Committee to Bridge the Gap. The committee, along with Public Citizen, the Nuclear Information and Resource Service, the Sierra Club, and the Redwood Alliance, seeks to withdraw the rules that weaken transport controls.

Duke Energy sold its partially completed 570 MW project near Deming, New Mexico, decreasing its debt by another \$125 million. “With the sale of the Luna project, we are continuing to deliver on our plan to divest our partially completed facilities, further reducing our exposure in the merchant sector,” said Fred Fowler, Duke president and CEO. Duke expects to reap \$3.1 billion from asset sales this year, providing \$750 million in tax benefits and \$840 million in debt reductions, according to a statement released by Duke Nov. 12.

The country’s first new liquefied natural gas facility, off the shore of Louisiana, is expected to receive its first shipment of imported gas next January, according to a report by NGI’s *Daily Gas Price Index*. Louisiana Energy Bridge’s LNG terminal in the Gulf of Mexico is expected to supply about half a billion cubic feet of gas a day.

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