Energy Revisited

CONGRESS ATTENDS TO UNFINISHED BUSINESS

By Stephen Barlas

AS CONGRESS SETTLES into the Capitol for its second session, cold winter weather is expected to turn up the political heat. Republican committee chairmen and top Democrat senior committee members have been feverishly readying legislation since last November to address expected spikes in electricity costs. Two categories of bills are in the offing. One attempts to mute the effect of high natural gas (and electricity) prices by dictating economic or efficient dispatch of power. A much broader solution aims to increase the supply of natural gas to utilities, industrials, farmers and everyone else, thereby deflating the price of natural gas.

Rob Minter, vice president, government and regulatory affairs, SUEZ Energy North America (formerly named Tractebel North America), says, “What I hear is everybody is positioning themselves to do something depending on the severity of winter.”

Bill Wicker, a spokesman for Jeff Bingaman (D-N.M.), top Democrat on the Senate Energy and Natural Resources Committee, says the senator is working on a bill which would force or encourage—the wording is not set yet—the states and the Federal Energy Regulatory Commission (FERC) to ensure that the lowest cost sellers of electricity are dispatched first in their region to meet heavy-load situations. This is called economic or efficient dispatch, two terms erroneously used interchangeably but which have significant differences.

Economic dispatch is extremely controversial within the utility industry and is relevant mostly in the south and southeast, where generators with older, gas-fired plants such as Entergy and Duke control transmission grids and therefore control the dispatch of power from independent generators such as Calpine and SUEZ. Those two companies and a few others have relatively new, efficient power plants sitting unused in states such as Louisiana, Mississippi and Oklahoma. Calpine and the others argue that Entergy’s hold on the transmission system enables it to refuse to dispatch Calpine’s cheaper electricity to meet peak loads. Entergy counters that Calpine and the others are unable to provide instantaneous load-following regulation service under automatic generation control.

Sen. Lamar Alexander (R-Tenn.), chairman of the Senate Energy and Natural Resources Committee’s energy subcommittee included a provision on efficient dispatch in his Natural Gas Price Reduction Act introduced last March. The provision established a national policy declaring: “If two or more natural gas-fired electric energy generation facilities are capable of meeting demand for electric energy, the facility that generates electric energy at the greatest level of thermal efficiency, and at the lowest cost to consumers of electric energy, shall be used first, in accordance with any operational or reliability requirement of an electric energy transmission system.”

That provision was not included in the energy bill Congress passed last summer. However, that Energy Policy Act did require the Department of Energy (DOE) to do a study on economic dispatch and required the FERC to hold regional meetings on the subject. The DOE report was published on November 21.

This report punches some holes in the notion of efficient dispatch. It argues the most efficient natural gas plants may not produce the cheapest electricity. The report goes on: “A better alternative would be to examine the practice of economic dispatch itself to determine whether modifications are needed to better achieve its traditional objectives—which could by itself lead to more efficient use of natural gas.”

Whether Bingaman calls it efficient or economic dispatch, Calpine is pointing to the DOE report as a vindication of its position. “The DOE study of economic dispatch confirms what Calpine has been saying for some time—improvements in the way economic dispatch is carried out can both reduce the cost of electricity and increase grid reliability,” states Jeanne Connelly, senior vice president, government affairs for Calpine.

The DOE report quotes Entergy by name and provides the company’s objections to economic dispatch. Rich Armstrong, director of system regulatory affairs for Entergy, did not reply to phone messages or e-mails seeking the company’s views on the prospective Bingaman bill, which is likely to touch on other issues besides utility dispatch.

Like economic dispatch, reducing high natural gas prices, as a legislative issue, resonates in some regions more than others. For example, Ray Dotter, spokesman for PJM Interconnection, the regional transmission organization (RTO), explains, “In 2004, although natural gas capacity represented 28 percent of our capacity, it only represented seven percent of the energy we produced.” On the other hand, Walter Higgins, chairman and chief executive officer of Sierra Pacific Resources,
ENRON POSED THE ultimate challenge to America’s legal infrastructure for reorganizing troubled companies. The statute, court system, judge, attorneys, and financial advisors were certainly challenged by 180 debtor-companies owning 2,300 legal entities having 29,000 employees, and ultimately owing more than $50 billion in a labyrinth of financings. Moreover, the challenge to reorganize Enron was magnified by escalating charges of fraud, 18 governmental investigations, two examiners, and a resulting inability to know what facts and people to trust. Enron’s workforce of MBAs and other prized graduates with specialized skills was on one hand critical to salvaging Enron’s businesses, jobs, and value, yet on the other hand was indiscriminately branded dishonest and motivated to leave Enron to start new careers. Many politicians, competitors, and onlookers thought the burning of Enron to ashes would send the right message or serve their purposes. Ashes, however, would only further wound Enron’s 25,000 employees and its creditors facing traumatic losses.

Avoiding ashes required a strong-minded judge who instantaneously attained all parties’ confidence in his intellect, fairness, and resolve, and required cooperative conduct by usually natural adversaries. Creditors of the 180 different Enron companies had to cooperate with each other and with Enron to avoid pulling Enron apart and making its businesses impossible to save. Having learned from the Arthur Anderson saga, the government avoided indicting Enron, and instead concentrated on the

called high natural gas prices “our biggest immediate challenge” when he issued the company’s third-quarter financial results on November 7.

That differing dependence is mirrored in other industrial sectors and explains why it has been so difficult to pass legislation increasing offshore natural gas development. For example, the Ocean State Options Act, which would give coastal states control of energy production in the federal waters they border and generate nearly $900 million for the federal government in its first five years, was included in the first version of the House budget reconciliation bill and was defeated. It was then eliminated from the bill, at which point the reconciliation bill passed.

That bill, sponsored by Rep. Richard Pombo (R-Calif.), chairman of the House Resources Committee, has considerable Democrat support, says Jennifer Zuccarelli, a spokeswoman for Pombo. “When people get their heating bills this winter, it will be clear that this is something America needs,” she says. “The chairman plans to see it through.”

Another, narrower offshore bill also has bipartisan support and, therefore, a better chance of congressional passage. Jessica Holliday, energy aide to Sen. Alexander, states her boss and Sen. Pete Domenici (R-N.M.), chairman of the Energy Committee, will likely introduce legislation aimed at expanding the area within Lease Sale 181 open to development. The Bush administration in 2001 reduced the area off the coast of Eastern Florida that could be developed from 5.9 million acres to 1.5 million acres. On October 28, 2005, three Democratic senators, including Bingaman, sent a letter to Interior Secretary Gale Norton throwing their weight behind drilling in the entire Lease Sale 181 minus a buffer of 100 miles from the coast of Florida.

Trying to pass either economic dispatch or offshore drilling legislation will prove politically painful. But if natural gas prices soar high this winter, Congress will have to take a couple Advil and move forward.

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