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PG&E Bankruptcy Refinancing Yields Questionable Savings

An Internal Revenue Service decision that paves the way for refinancing \$2.2 billion of Pacific Gas & Electric's bankruptcy debt will produce only a \$50 million reduction in ratepayers' bankruptcy tab this year—a fraction of the anticipated \$1 billion in savings. Additional savings are expected from the second bond issuance and over the nine-year life of the bonds, according to PG&E spokesperson Ron Low. Still, the total amount is unknown, and there are questions as to whether it will actually reach the figure promised during the bankruptcy settlement.

Mike Florio, senior attorney with The Utility Reform Network, called PG&E's \$50 million savings estimate for 2005 "very conservative." He said that estimates "fairly consistently" show savings of \$100 million a year at nominal value—i.e., without factoring in present dollar discounts, given current interest rates.

A little more than a year after PG&E emerged from bankruptcy, the IRS issued a ruling December 28, 2004, that allows the utility to spread the significant tax on refinancing its \$2.2 billion phantom regulatory asset over time instead of requiring that it be paid in a lump sum.

The original "rate reduction bonds" under deregulation law AB 1890 received this tax treatment, according to Florio. In both cases, the financing was not for a traditional utility asset but a tool to provide utilities with capital secured with ratepayer backing—thus allowing them cheaper access to capital than would traditionally be available.

The anticipated IRS ruling removes one of the last hurdles standing in the way of the issuance of \$3 billion in bonds to refinance PG&E's regulatory asset. The refinancing bonds will be issued in two rounds over a year's time, with the \$1.8 billion issuance expected to occur later this month, according to Low. California Public Utilities Commission president Mike Peevey is said to be pressuring the utility to conduct a single issuance to tie up the matter, but PG&E is resisting because of the huge infusion of cash that would result.

Legislation was passed last year that made way for the refinancing of the regulatory asset, which comes with lower interest and taxes, to reduce ratepayers' tab—estimated at \$8 billion when the bankruptcy deal was approved in December 2003.

—Elizabeth McCarthy

CPUC Prods Efficiency Proceedings

This year could be a landmark time for energy efficiency if the California Public Utilities Commission's activity at the end of 2004 turns into action. In late December, commissioner Susan Kennedy requested feedback on how the state can comply with the governor's "green buildings" executive order, and she, along with administrative law judge Meg Gottstein, solicited stakeholder input on the design of post-2005 energy policy rules. In addition, a November 29 draft decision by Kennedy and Gottstein would allow utilities to administer efficiency funds as well as deciding what programs should receive ratepayers' public-purpose funds.

Governor Arnold Schwarzenegger's December 15 "green buildings" executive order calls for investments in state buildings to reduce electricity consumption by 10 percent per square foot by 2010 and double that amount by 2015. Kennedy requested ideas for an immediate outreach campaign and programs for the commercial sector, as well as future funding-cycle development, on December 29.

For post-2005 efficiency programs, Kennedy and Gottstein want to draft new rules that focus on efficiency programs based on "end-use savings potential." In prior decisions, the commission allowed reporting on programs and measures, as well as end use—leading to a wealth of data, but information that is not easily digested.

Workshops on the issue begin February 15 and will include compiling a glossary of energy-efficiency terms and definitions.

The draft decision designing a post-2005 administrative structure for energy-efficiency programs would allow

utilities to plan and manage programs, as well as to make "decisions on what programs to fund with ratepayer dollars." If approved by the commission, utilities would assemble a portfolio of efficiency programs, manage them on a daily basis, and decide what nonutility organizations would receive program funds.

Critics, such as Barbara George, director of Women's Energy Matters, charge that the draft decision ignores data that show third-party administrators are less wasteful with efficiency funds than utilities. She also notes the proposed

"Unwilling to rely solely on competitive market."

decision would throw out historical scoring criteria in favor of utility direction and would discard proportional distribution of funds to the ratepayer category from which they are collected.

Kennedy and Gottstein are reluctant to allow deregulation to creep into energy-efficiency programs after what they call the "painful" experience during the energy crisis. "Our experiences in California have left us unwilling to rely solely on competitive market solutions to meet customers' energy needs," they stated. They added that if utilities aren't in control, statewide programs would cease to exist and customers would be faced with too many choices, losing program leverage.

Kennedy and Gottstein assert that returning utilities to a leadership role in efficiency follows utilities' return to resource planning—after deregulation caused abandonment of that role. With utilities at the helm of resource planning again, Kennedy and Gottstein noted that allowing third parties to administer the funds would mean an extra layer between utilities and control of their resource plans.

—J.A. Savage

Gov Pushes Brown over Green Power

Although Governor Arnold Schwarzenegger has taken a strong pro-renewables stance, there was little evidence of that in his January 5 "State of the State" speech. Instead of promoting his "Million Solar Systems" initiative and other projects for developing green power, the governor emphasized the need for more power plants and transmission lines. The state must have "abundant and cheap power," he insisted during his brief mention of energy issues during his 30-minute talk.

While the speech noted that California is a leader in

conserving power, "We cannot conserve our way out of our long-term energy crunch," according to the governor. Renewables are seen as part of the mix but were mentioned only in passing and overshadowed by the call for more power plants "as soon as possible." Without specifically citing the California Public Utilities Commission decisions advancing resource-adequacy requirements to 2006 and approving the utilities' long-term procurement plans, he mentioned that reserves are

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