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Megawatt Daily

Friday, October 24, 2008

Pa. regulators question restructuring results

While an industrial customer testified that Pennsylvania made a mistake restructuring its power market more than 10 years ago, Pennsylvania regulators questioned independent system operator officials on wholesale power costs and transmission projects, including why a particular project in Virginia is taking so long and resulting in significant congestion costs for customers in the PJM Interconnection.

The Public Utility Commission, at its hearing in Harrisburg Thursday on wholesale market operations, questioned Andrew Ott, senior vice president at PJM, Graham Edwards, CEO of the Midwest Independent Transmission System Operator, and others, particularly regarding locational marginal pricing and capacity

(continued on page 11)

NERC finds most capacity margins improving

Capacity margins in North America are improving over last year, mostly because of new supply and demand response, but the desert Southwest and western Canada face reliability issues unless more resources are brought online by 2010, the nation's electric reliability watchdog said Wednesday.

The North American Electric Reliability Corp. in its 2008 Long-Term Reliability Assessment said New England, California, the Rocky Mountain region, Texas and the Midwest all showed improvements in capacity margins because of new resources or the establishment of forward capacity markets. A forward capacity market — under which generators are paid incentives to increase existing capacity or bring new generation online — was

(continued on page 12)

PJM Interconnection eyes credit policy change

In light of the ongoing crisis in the financial markets and the bankruptcy of Lehman Brothers Holdings and its commodity arm, the PJM Interconnection is looking to adjust its credit policy and limit the dollar amount of letters of credit it will accept from a single financial institution.

According to PJM documents, about 47% of all letters of credit posted with the grid operator are issued by only two financial institutions. The largest provider in PJM supports more than $400 million worth of letters of credit, while the second-largest supports more than $300 million worth. Also, the top eight providers of letters of credit in PJM support 80% of all the letters posted as financial security, documents show.

(continued on page 12)

Day-ahead markets for delivery Oct 24 ($/MWh)

ERCOT	Index	Change	Range	Deals	Volume	Avg $/Mo
On-peak						
ERCOT	41.25	3.36	40.00-42.60	12	600	41.27
ERCOT, North	41.83	1.69	40.75-42.50	87	5,650	45.38
ERCOT, Houston	47.92	0.13	47.00-50.50	33	2,275	55.87
ERCOT, West	42.00	-9.25	42.00-42.00	N.A.	N.A.	43.28
ERCOT, South	47.18	0.72	46.45-48.50	17	1,300	53.07
Off-Peak						
ERCOT	29.35	5.65	27.00-30.00	8	375	18.85
ERCOT, North	29.08	3.12	26.95-30.50	30	2,125	23.94
ERCOT, Houston	32.15	2.55	30.95-35.00	16	1,000	31.43
ERCOT, West	29.00	-5.25	29.00-29.00	N.A.	N.A.	22.18
ERCOT, South	31.00	2.25	31.00-31.00	N.A.	N.A.	30.14
Southeast	**Index**	**Change**	**Range**	**Deals**	**Volume**	**Avg $/Mo**
On-peak						
VACAR	51.25	-1.00	51.25-51.25	N.A.	N.A.	52.72
Southern, into	55.50	-1.50	55.50-55.50	N.A.	N.A.	54.29
Florida	59.00	-4.00	59.00-59.00	N.A.	N.A.	61.56
TVA, into	49.00	-3.00	49.00-49.00	N.A.	N.A.	49.92
Entergy, into	48.00	-1.00	48.00-48.00	N.A.	N.A.	48.10
Off-Peak						
VACAR	38.00	-1.00	38.00-38.00	N.A.	N.A.	31.79
Southern, into	36.00	-1.00	36.00-36.00	N.A.	N.A.	30.76
Florida	39.00	-0.75	39.00-39.00	N.A.	N.A.	34.29
TVA, into	32.50	-2.00	32.50-32.50	N.A.	N.A.	27.67
Entergy, into	29.00	-0.25	29.00-29.00	N.A.	N.A.	25.54
West†	**Index**	**Change**	**Range**	**Deals**	**Volume**	**Avg $/Mo**
On-peak						
COB	57.57	-7.24	55.00-59.00	13	375	58.44
Mid-C	53.26	-6.09	52.25-55.00	54	1,375	54.13
Palo Verde	44.22	-8.13	42.75-46.75	44	1,500	46.99
Mead	45.00	-9.86	44.75-45.25	5	125	48.95
Mona	45.00	-4.00	45.00-45.00	N.A.	N.A.	43.25
Four Corners	43.86	-7.23	43.00-44.40	6	150	46.36
NP15	55.42	-10.46	53.00-58.00	86	2,675	58.20
SP15	53.20	-10.31	52.50-54.50	171	4,400	55.61
Off-Peak						
COB	46.04	-2.86	45.00-47.25	12	300	44.16
Mid-C	45.56	-2.45	44.25-46.25	122	3,475	43.25
Palo Verde	31.92	-1.54	31.00-34.40	15	400	32.65
Mead	33.00	-1.89	33.00-33.00	N.A.	N.A.	35.23
Mona	28.00	-1.50	28.00-28.00	N.A.	N.A.	28.65
Four Corners	27.75	-2.75	27.75-27.75	N.A.	N.A.	30.23
NP15	43.13	-6.44	42.00-45.00	96	2,700	43.71
SP15	36.21	-1.48	35.00-37.25	90	2,375	38.52
Northeast	**Index**	**Change**	**Range**	**Deals**	**Volume**	**Avg $/Mo**
On-peak						
Mass Hub	67.50	-4.00	67.50-67.50	N.A.	N.A.	67.00
N.Y. Zone-G	68.50	-3.25	68.50-68.50	N.A.	N.A.	69.61
N.Y. Zone-J	70.50	-2.00	70.50-70.50	N.A.	N.A.	76.46
N.Y. Zone-A	52.00	0.75	52.00-52.00	N.A.	N.A.	55.81
Ontario*	51.00	1.00	51.00-51.00	N.A.	N.A.	51.82
Off-Peak						
Mass Hub	53.50	-0.50	53.50-53.50	N.A.	N.A.	50.51
N.Y. Zone-G	52.50	1.50	52.50-52.50	N.A.	N.A.	49.51
N.Y. Zone-J	53.00	1.50	53.00-53.00	N.A.	N.A.	50.06
N.Y. Zone-A	45.00	2.75	45.00-45.00	N.A.	N.A.	42.93
Ontario	36.00	1.75	36.00-36.00	N.A.	N.A.	29.94

(continued on page 2)

MARKET WRAP

EAST MARKETS

Dailies mostly lower; terms down with NYMEX

Power prices for Friday delivery finished mostly lower in the East, against the backdrop of lower spot gas prices and expectations for a drop in demand, while forwards in the region were pulled lower as the November NYMEX gas contract declined by 35.8 cents, or 5.3%, to settle Thursday at $6.419/MMBtu.

Northeast dailies for Friday delivery dropped with demand as weather forecasts were calling for an increase in temperatures, bringing highs to the upper 50s and mid-60s. Spot gas prices were also lower, posting a 40-cent drop at the New England and New York city-gates. ISO New England peak demand forecast called for a 1,000 MW drop to 16,060 MW.

Mass Hub dailies were about $4 lower, trading near $67.25/MWh on the IntercontinentalExchange. Tennessee, zone 6 delivered spot gas prices shed 42 cents, trading near $7.80/MMBtu on ICE. Boston area weather forecasts were calling for highs near 61 today, a few degrees above normal. Mass Hub near-term trading was limited. Next-week deals were about $1 lower, trading between $71.50 and $73.50/MWh. Weekend was bid at $58 and offered at $65.50/MWh.

In New York, demand was forecast to fall 3.6% to 19,366 MW today, softening dailies in New York's Zone-G by $3.25. Trades on ICE were exchanged between $67.95 and

Day-ahead markets for delivery Oct 24 ($/MWh)

PJM	Index	Change	Range	Deals	Volume	Avg $/Mo
On-peak						
PJM West	58.00	-2.50	58.00-58.00	N.A.	N.A.	60.47
Dominion Hub	59.75	-0.50	59.75-59.75	N.A.	N.A.	63.32
AD Hub	51.25	0.25	51.25-51.25	N.A.	N.A.	50.13
NI Hub	49.00	-2.50	49.00-49.00	N.A.	N.A.	48.29
Off-Peak						
PJM West	46.00	-4.75	46.00-46.00	N.A.	N.A.	42.42
Dominion Hub	46.75	-3.75	46.75-46.75	N.A.	N.A.	43.63
AD Hub	37.50	-0.50	37.50-37.50	N.A.	N.A.	32.10
NI Hub	25.75	-2.75	25.75-25.75	N.A.	N.A.	23.10
MISO	**Index**	**Change**	**Range**	**Deals**	**Volume**	**Avg $/Mo**
On-peak						
Michigan Hub	49.25	0.25	49.25-49.25	N.A.	N.A.	49.60
First Energy Hub	41.50	-0.75	41.50-41.50	N.A.	N.A.	41.82
Cinergy Hub	47.25	0.50	47.25-47.25	N.A.	N.A.	47.46
Illinois Hub	39.00	-5.25	39.00-39.00	N.A.	N.A.	45.36
Minnesota Hub	46.50	0.25	46.50-46.50	N.A.	N.A.	45.13
Off-Peak						
Michigan Hub	31.00	-3.25	31.00-31.00	N.A.	N.A.	26.97
First Energy Hub	27.50	-3.00	27.50-27.50	N.A.	N.A.	22.65
Cinergy Hub	29.75	-3.00	29.75-29.75	N.A.	N.A.	26.90
Illinois Hub	13.75	-6.25	13.75-13.75	N.A.	N.A.	20.01
Minnesota Hub	16.50	-3.50	16.50-16.50	N.A.	N.A.	15.24
SPP/MRO	**Index**	**Change**	**Range**	**Deals**	**Volume**	**Avg $/Mo**
On-peak						
MAPP, South	50.00	-1.00	50.00-50.00	N.A.	N.A.	47.26
SPP, North	49.00	-1.00	49.00-49.00	N.A.	N.A.	47.74
Off-Peak						
MAPP, South	29.25	-0.75	29.25-29.25	N.A.	N.A.	23.40
SPP, North	29.00	-0.75	29.00-29.00	N.A.	N.A.	23.15

**Ontario prices are in Canadian dollars*
†West markets are for Friday and Saturday delivery

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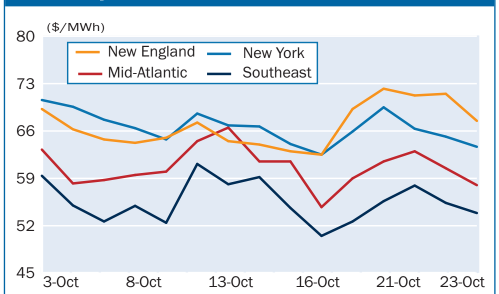
$69/MWh. Zone-A dailies, on the other hand, inched up about 50 cents to near $51.80/MWh. Transco zone 6, New York spot gas prices were about 40 cents lower, trading near $7.31/MMBtu on ICE. Next-week packages for October 27-31 in Zone-A traded about 50 cents higher near $58.25/MWh. In Zone-G, next-week traded near $73.50/MWh, close to bids seen on Wednesday. Zone-A November 3-7 was bid $2 lower at $56 and offered flat at $61/MWh.

Northeast forwards fell Thursday led by rapidly falling NYMEX gas. November Mass Hub tumbled $2.50 to $68.50 and December lost $3.25 moving down to $78/MWh. Winter dropped $3.25 to $87.25 and the summer moved down $2.25 to finish the day at $84.75/MWh. November New York Zone-A lost $1.50 to $59 and December fell $2 to $60s/MWh.

Prices in the Mid-Atlantic fell due to a combination of lower spot gas prices and predicted decreased peak load. Texas Eastern M-3 spot gas traded around $6.80/MMBtu on ICE, 31 cents lower than Platts' for-Thursday index. The PJM Interconnection predicted a 4% decrease in peak load from Thursday to 81,886 MW today. Weather outlooks for today predicted highs in the upper 50s to mid-60s, compared with highs expected in the mid-50s for Thursday. PJM Interconnection West Hub day-ahead slid $2 to around $58/MWh on ICE. Off-peak traded about $5 lower, around $45.75/MWh. Next-week gained about $1, trading around $65.60/MWh on ICE. Weekend peak traded around $50/MWh, slightly lower than Wednesday bids and offers. Weekend off-peak was bid $1.75 more at $33 and offered $3 lower at $40/MWh.

East day-ahead markets



Note: Based on averages from each region

Mid-Atlantic forwards moved down Thursday with a steep decline in NYMEX gas. Power trading on ICE was active with PJM West December and the winter package registering the most significant volume. November and December PJM West rolled back $1.75 to $60.50 and December lost $2 to $63.25/MWh. The winter package dropped $3 to $69.50 and the summer fell $2 to $86.50/MWh.

Southeast markets saw a quiet start to Thursday's trading session on the ICE platform, with traders making plenty of bids and offers but executing no deals. The lack of trades came even as weather conditions in the region were expected to remain colder than usual for this time of year. Forecasts showed highs in the 50s and 60s in most areas today, averaging about 10 degrees below normal. A return to more seasonable weather was in store for the weekend. Also impacting the market was a more than 20-cent decline in spot gas at Transco zone 3, which traded near $6.83/MMBtu. Into Southern day-ahead on-peak power was bid at $52 and offered at $56/MWh around 9:30 am CDT on ICE, with no better bid-offer spreads seen even as the session progressed. The Platts for-Thursday index was $57/MWh. Weekend on-peak bids rose $1 to $50 with earlier offers at $53/MWh being pulled by 11 am CST. Next-week was bid at $56.50 and offered at $58/MWh.

Southeast forwards fell Thursday on the back of weaker

Generation unit outage report

East

Plant/Operator	Cap	Fuel	State	Status	Return	Shut
Bruce-3/Bruce Power	770	n	Ont.	PMO	11/15/08	09/15/08
Farley-2/Southern	860	n	Ala.	RF	Unk	10/18/08
McGuire/Duke	1,100	n	NC	RF	late Oct.	09/20/08
Millstone-3/Dominion	1,154	n	Conn.	RF	mid-Nov.	10/11/08
North Anna-2/Dominion	910	n	Va	RF	Unk	09/15/08
Pickering-7/Ontario Power Gen.	525	n	Ont	PMO	Unk	04/06/08
Robinson-2/Progress	710	n	S.C.	RF	Unk	09/26/08
Salem-1/PPL	1,156	n	NJ	RF	Unk	10/14/08
St. Lucie-2/FPL	839	n	Fla.	RF	Unk	10/18/08
Vermont Yankee/Entergy	610	n	Vt.	RF/PMO	Unk	10/19/08

Central

Plant/Operator	Cap	Fuel	State	Status	Return	Shut
Byron-2/Exelon	1,120	n	Ill.	RF	Unk	10/05/08
Callaway/Ameren	1,190	n	Mo.	RF	Unk	10/11/08
Cook - 1/AEP	1,026	n	Mich.	MO	Unk	09/21/08
Prairie Creek/Alliant Energy	185	c	Iowa	MO	Unk	06/13/08
Prairie Island-2/ Xcel Energy	538	n	Minn.	RF	Unk	09/19/08
Salem-1/PSEG	1,115	n	NJ	RF	Unk	10/15/08
Sixth Street/Alliant Energy	55	c	Iowa	MO	Unk	06/12/08

West

Plant/Operator	Cap	Fuel	State	Status	Return	Shut
Colgate-1/PG&E	177	h	Calif.	PMO	Unk.	10/01/08
Colgate-2/PG&E	176	h	Calif.	PMO	Unk.	10/01/08
Diablo-2/PG&E	1,119	n	Calif.	MO	Unk.	10/22/08
Encina-4/NRG	300	g	Calif.	PMO	Unk.	10/20/08
Etiwanda-3/Reliant	320	g	Calif.	PMO	Unk.	10/20/08
Gilroy/Calpine	135	g	Calif.	MO	Unk.	09/15/08
Helms Pump-3/PG&E	404	h	Calif.	PMO	Unk.	09/28/08
High Desert/Constellation	830	g	Calif.	MO	Unk.	10/22/08
Inland Empire-1/Inland	376	g	Calif.	MO	Unk.	08/17/08
Inland Empire-2/Inland	337	g	Calif.	MO	Unk.	08/14/08
Kerkhoff-1/PG&E	154	h	Calif.	PMO	Unk.	10/13/08
La Paloma-4/Complete	260	g	Calif.	MO	Unk.	10/13/08
Morro Bay-3/LS	337	g	Calif.	PMO	Unk.	10/05/08
Palo Verde-1/APS	1,245	n	Ariz.	RF	Unk.	10/05/08
Pine Flat-7/KRCD	210	h	Calif.	MO	Unk.	08/17/08
San Onofre-3/SoCal Ed	1,080	n	Calif.	RF	Unk.	10/13/08

For methodology, see table.

Daily generation outage references

MO	unplanned maintenance outage
PMO	planned maintenance outage
RF	refueling outage
Unk	unknown
OA	offline/available

Fuels: Nuclear=n; Coal=c; Natural gas=g; Hydro=h

Sources: Generation owners, public information and other market sources.

NYMEX gas. Into Southern November was down about $2 to around $51.25, with a bid at $52/MWh pulled by mid-morning from ICE. Into Southern December lost about $2.25 to around $49.50/MWh. Into TVA November was about 25 cents softer to around $49, while December dropped about $1.50 to near $51.75/MWh in thin trading.

CENTRAL MARKETS

Dailies steady; near-terms mixed; forwards off

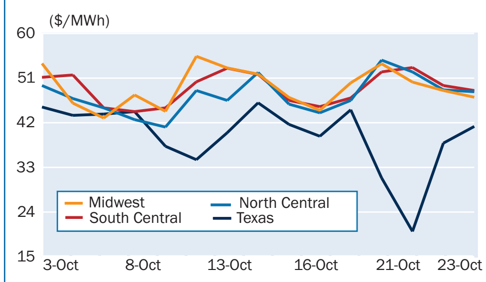
Day-ahead prices were steady on Thursday while near-term packages traded mixed. Terms broadly posted losses as the November NYMEX natural gas contract declined by 35.8 cents, or 5.3%, to settle at $6.419/MMBtu despite a smaller-than-anticipated injection into gas storage.

In the Midwest, prices were mixed on a combination of lower spot gas prices and cooler-than-normal weather. Chicago city-gates spot gas traded around $6.80/MMBtu on the IntercontinentalExchange, about 30 cents lower than Platts' for-Thursday index. Forecasts for today called for highs in the low to mid-50s, slightly lower than normal. Cinergy Hub day-ahead was steady, trading around $47/MWh on ICE. Off-peak dropped about $2.75, trading around $30/MWh. Weekend peak was bid 50 cents more at $33.50 and offered 75 cents less at $36.75/MWh, ICE showed. Off-peak was bid flat at $20 and offered $2.10 less at $27.90/MWh. Next-week traded around $53.75/MWh, almost $2 higher than trades seen Wednesday.

Minnesota Hub day-ahead was bid at $44.50 and offered at $46.50/MWh, steady with Platts' for-Thursday index. Off-peak was offered at $21/MWh, $1 more than Platts' for-Thursday index and with no corresponding bids seen on ICE. In the PJM Interconnection, prices were steady. AEP-Dayton Hub day-ahead was trading around $51.50/MWh on ICE. Off-peak was bid at $36 and offered at $39/MWh. Weekend peak was bid flat at $40 and offered $3 less at $47/MWh. Off-peak was bid flat at $28 and offered flat at $36/MWh. Northern Illinois Hub day-ahead traded around $48/MWh, compared with Platts' for-Thursday index of $51.50/MWh. Off-peak was bid at $23 and offered at $26/MWh, slightly lower than Platts' for-Thursday index of $28.50/MWh.

Midwest terms tracked the downturn in NYMEX gas and dropped between $1.50 and $2.50/MWh. November Cinergy Hub fell $1.50 to $48 and December was down $1.75 to $51.50/MWh. November AEP Hub declined $1.25 to $51.75/MWh and December lost $1.75 to $54.25/MWh. November Northern

Central day-ahead markets



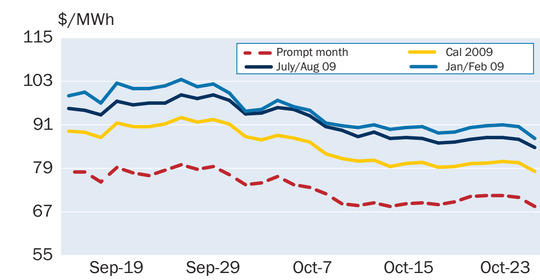
Note: Based on averages from each region

Platts-ICE Forward Curve — Electricity, Oct 23 ($/MWh)

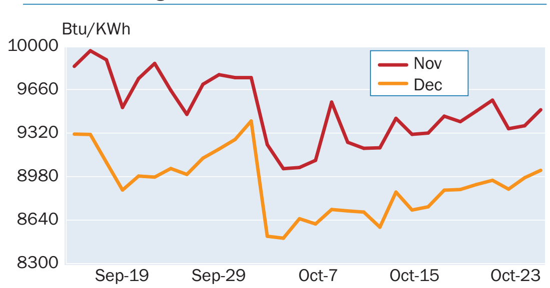
Prompt month: Nov08	
Mass Hub	68.50
N.Y. Zone G	70.75
N.Y. Zone J	82.00
N.Y. Zone A	59.00
Ontario*	56.00
PJM West	60.50
AD Hub	51.50
NI Hub	48.00
Cinergy Hub	48.00
TVA Into	48.50
Southern Into	51.25
Entergy Into	47.25
ERCOT	31.00
Mid-C	53.50
Palo Verde	37.75
NP15	54.00
SP15	49.25

**Ontario prices are in Canadian dollars*

Mass Hub: Key packages, last 30 days



Mass Hub: Marginal heat rate



Mass Hub: Forward curve

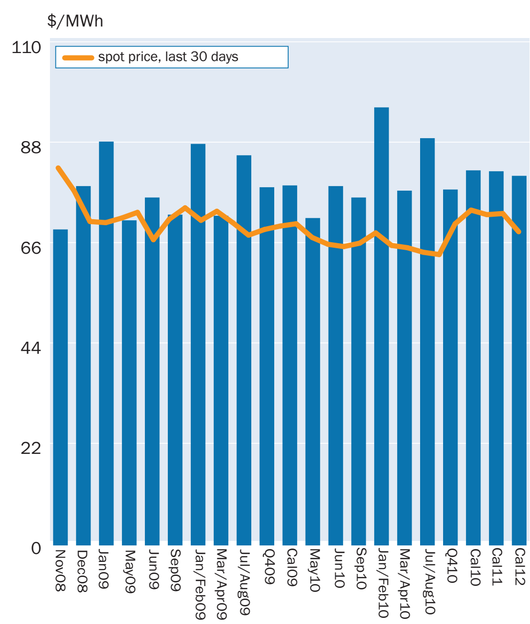


Table and graphs are created using Platts–ICE Forward Curve — Electricity (North America) data. Both on-peak and off-peak electricity forward assessments are available for periods spanning four years. To see a sample and find information on how to subscribe to the full data set go to www.risk.platts.com. For more information about Platts services, please call +1-800-PLATTS8. For editorial questions call Mike Wilczek +202-383-2246 or Eric Wieser +202-383-2092

Illinois fell $2 to $48 with about 450 Mw of volume going through ICE.

South Central day-ahead prices held fairly steady, with most points remaining within $1 or so of the previous day's price levels. However, prices in ERCOT's West zone tumbled nearly $10 as weather conditions were expected to warm up after a day of well below-normal temperatures. Texas forecasts for today were calling for highs ranging from the upper 60s in Amarillo to around 80 in Houston, near normal for late October. Outlooks showed little change in temperatures during the next few days until another cold front sweeps into the area Sunday night. Load forecasts posted by ERCOT early Thursday showed peak load rising about 2,700 MW to 34,674 MW today. Meanwhile, spot gas prices at the Houston Ship Channel fell about 20 cents Thursday, trading near $6.39/MMBtu.

ERCOT day-ahead power traded near for-Thursday levels, in the low $40s/MWh in the North zone and in the high $40s/MWh in the Houston and South zones, ICE showed. Seller's choice daily packages traded in the low $40s/MWh, up about $4 on the day. West zone tumbled nearly $10, also trading in the low $40s/MWh. Also at ERCOT North, the best bid-offer spread for next-week was seen early in ICE trading, bid at $40 and offered at $43/MWh. By around 11 am CDT, bids were at $39 and offers at $48/MWh. Weekend on-peak packages were bid at $30. Day-ahead prices in neighboring Entergy held in the high $40s/MWh amid mild weather in the region. Forecasts called for daytime temperatures in the mid-60s to the low 70s today. A slight warm-up was expected during the next few days before the expected cold front Sunday night. Meanwhile, spot gas at the Henry Hub shed more than 15 cents Thursday, trading near $6.77/MMBtu. Into Entergy weekend on-peak was bid $1.50 higher than Wednesday at $41.50 on offers at $44/MWh. Next-week bids fell $4 to $51 and offers climbed $4 to $57/MWh.

South central forwards fell Thursday as NYMEX gas dropped with a 70-Bcf gas storage build. News of Enbridge's Garden Banks gas pipeline exiting a *force majeure* outage also put pressure on gas. ERCOT seller's choice November heat rates were steadily bid at 4.6 and offered at 5 MMBtu/MWh on ICE, bringing fixed values down about $2 to around $31/MWh. December seller's slid about $1.75 to around $31.25/MWh. Into Entergy November lost about $2 to around $47.25/MWh, bid lower at $46.75 and offered at $49/MWh on ICE.

WEST MARKETS

Dailies fall sharply in California; terms down

Southern California day-ahead on-peak power prices fell as much as $12.25 Thursday, on a day when spot gas prices plunged as much as 45 cents in the Rockies. Though tempera-

Near-term markets ($/MWh)

Contract	Transacted	Range
East		
Mass Hub		
Bal-week	10/22	69.75-70.50
Bal-week	10/21	70.75-71.25
Bal-month	10/23	70.75-71.25
Next-week	10/21	72.75-73.25
N.Y. Zone-G		
Bal-month	10/23	73.00-73.50
Next-week	10/21	73.75-74.25
PJM West		
Bal-week	10/22	58.50-59.00
Bal-week	10/21	63.00-63.50
Bal-week	10/20	62.00-64.50
Bal-week (off-peak)	10/20	48.00-50.00
Bal-week (off-peak)	10/17	44.50-45.00
Next-week	10/22	64.00-65.00
Next-week	10/21	65.00-65.50
Next-week	10/20	65.50-66.25
Next-week	10/17	63.25-63.75
Southern, Into		
Bal-week	10/22	52.75-53.25
Next-week (off-peak)	10/22	39.75-40.25
Central		
Entergy, Into		
Bal-week	10/22	46.75-47.25
Bal-week	10/21	50.75-51.25
ERCOT, North		
Bal-week	10/21	38.00-39.00
Bal-week	10/20	37.75-38.25
Bal-week	10/17	42.25-42.75
Bal-month	10/22	41.50-42.00
Bal-month	10/21	38.95-39.50
Bal-month	10/20	39.75-40.25
West		
Mid-C		
Bal-month	10/23	53.75-54.50
Bal-month	10/22	54.50-57.25
Bal-month	10/21	53.00-55.00
Bal-month	10/20	53.75-54.25
Bal-month	10/17	52.00-53.00
Bal-month (off-peak)	10/23	42.00-43.00
Bal-month (off-peak)	10/22	42.25-46.00
Bal-month (off-peak)	10/20	41.75-42.75
Bal-month (off-peak)	10/17	37.00-41.00

**Ontario prices are in Canadian dollars*

Electricity market coverage

More information about Platts electricity market coverage, explanations of methodology and descriptions of delivery points are available at www.platts.com/Electric Power/Resources/ Methodology & Specifications/.

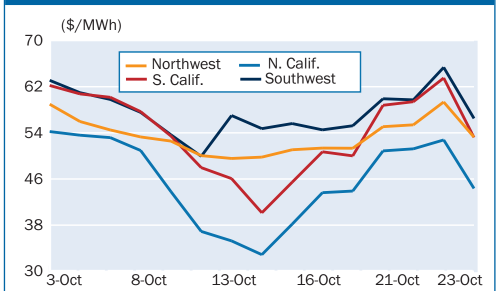
Questions may also be directed to our market editors; Lisa Lawson, (713) 658-3267, lisa_lawson@platts.com and Mike Wilczek, (202) 383-2246, mike_wilczek@platts.com .

tures remain slightly above average in most of the West, on-peak day-ahead power in the Southwest and Northern California was off by about $8 and the Northwest dropped by about $6.25 in action on IntercontinentalExchange. October financial balance-of-the-month packages also dropped, and forwards took a dive as well.

The California daily price plunges came despite the loss of about 6,200 MW of mostly unplanned generation maintenance outages. Southwest dailies fell even with the refueling outage of one of the three 1,245-MW Palo Verde nuclear plants. Bal-months fell by as much as about $6.50 in Northern California, were down by about $5 in Southern California, fell by about $3.50 in the Southwest, and were off by about $1.25 in the Northwest in ICE action.

In day-ahead trades in California for Friday and Saturday delivery, on-peak at NP15 averaged around $55.50/MWh. SP15 averaged about $53.25/MWh on ICE. Sacramento is to reach a high of about 82 today, about 7 degrees above average. Los Angeles is expected to reach a high of about 93 today, about 13 degrees above average.

West day-ahead markets



Note: Based on averages from each region

The California Independent System Operator expected peak load of 32,499 MW Thursday and peak load of about 300 MW less today. The Western Electricity Coordinating Council projected peak load of 41,550 MW for the California-Mexico border area Thursday, about 900 MW more than on Wednesday. SP15 bal-months were bid at about $50 and offered at around $54.75, with an average deal of about $52.50/MWh in the afternoon on ICE.

In the Southwest, Palo Verde day-ahead averaged about $44.25/MWh on ICE. Phoenix was forecast to reach a high of 90 today, 6 degrees above average. Total volume traded at Palo Verde on ICE was about 2,375 MW, about 75 less than on Wednesday. WECC projected peak demand of 23,661 MW Thursday in the Rocky Mountain/Desert Southwest, about 200 less than actual peak on Wednesday. October bal-months at Palo Verde were bid at about $49 and offered at around $54/MWh, with a deal at about $52.25/MWh.

The Northwest's Mid-Columbia averaged around $53/MWh. The Northwest Power Pool projected peak load Thursday of 46,473 MW, about 500 MW more than actual load Wednesday. October bal-months at Mid-C were bid at about $51.50 and offered at around $54/MWh, with a deal at about $53.25/MWh. Portland is to reach a high of about 60 today.

Forwards were diving early in the day, with NYMEX gas futures falling in morning trading activity. Liquidity on ICE was thin during the morning, as market players appeared to focus on the front end of the curve. SP15 November financial swaps gave up $2.50, with bids at $50.25 and offers at $51/MWh on ICE around 10:30 am EDT. SP15 December lost about $1.25, with bids at $61 and offers at $62.75/MWh. NP15 November tumbled nearly $3, with bids at $51.25 and offers at $54/MWh.

Mid-Columbia November gave up more than $1, with bids at $53 and offers at $55/MWh. Mid-Columbia December was off about 25 cents, with bids at $62.75 and offers at $65/MWh. NP15 November tumbled nearly $3, with bids at $51.25 and offers at $54/MWh. Palo Verde November gave up nearly $2, with bids at $37.50 and offers at $39/MWh. Palo Verde December was also off nearly $2, with bids at $47 and offers at $50/MWh.

Daily emissions assessments, Oct 23

	$/allowance	Change	$/st
SO2 2008	200.00	0.00	200.00
NOx 2008	750.00	0.00	750.00
NOx 2009	650.00	0.00	650.00
NOx 2010	600.00	0.00	600.00

For methodology, visit www.emissions.platts.com.

Full coverage of SO2 and NOx emissions markets now appears in Platts Coal Trader. For information on Coal Trader, contact support@platts.com or call 1-800-PLATTS-8.

Spark spreads for Oct 24

	Marginal heat rate	Spark spreads @7k	@8k	@10k	@12k	@15k
East						
Mass Hub	9088	15.51	8.08	-6.78	-21.63	-43.91
N.Y. Zone-G	9352	17.23	9.90	-4.75	-19.40	-41.37
N.Y. Zone-J	9572	18.95	11.58	-3.15	-17.88	-39.98
N.Y. Zone-A	7298	2.13	-5.00	-19.25	-33.50	-54.87
Ontario*	5820	-10.34	-19.10	-36.63	-54.15	-80.44
PJM West	7951	6.94	-0.36	-14.95	-29.54	-51.42
TVA, into	7257	1.73	-5.02	-18.52	-32.03	-52.29
Central						
Cinergy Hub	6683	-2.24	-9.31	-23.45	-37.59	-58.80
NI Hub	6995	-0.03	-7.04	-21.05	-35.06	-56.07
Entergy, into	9078	10.99	5.70	-4.87	-15.45	-31.31
ERCOT	6420	-3.73	-10.15	-23.00	-35.85	-55.12
West						
Mid-C	8570	9.76	3.54	-8.89	-21.32	-39.96
Palo Verde	10079	13.51	9.12	0.34	-8.43	-21.59
NP15	8745	11.06	4.72	-7.95	-20.63	-39.64
SP15	11037	19.46	14.64	5.00	-4.64	-19.10

**Ontario prices in Canadian dollars*
†Spark spreads are reported in ($) and Marginal heat rates in (Btu/kWh)

IN THE NEWS

Cal-ISO members may not be ready for launch

The California Independent System Operator is prepared for the launch of its Market Redesign and Technology Upgrade on February 1, but said several of its market participants have indicated that they are worried their systems will not be ready.

"The ISO is ready and is doing all it can to get all of our participants ready and will continue to provide them with access to our subject matter experts and others, to make sure any problem with change codes is found and fixed before launch," Steve Berberich, Cal-ISO vice president of corporate services, said in an interview Thursday.

Berberich said that to allow Cal-ISO staff and consultants working on MRTU to focus on eliminating problems during the ongoing simulation, he will ask the system operator's board of governors to allow the MRTU to launch without a system to handle "forbidden zone" problems and three other components. He said his request will be made at the next regularly scheduled meeting Tuesday and Wednesday.

Cal-ISO also will request approval to institute a price cap for wholesale electricity purchases of $2,500/MWh and a price floor of minus $2,500/MWh.

"None of these four parts are necessary to the launch or function of MRTU. We can handle the forbidden zone process as we are doing it now, until we have the chance to get back to it after launch and develop a combined-cycle modeling that we believe will become a better and quicker way to handle forbidden regions," Berberich said. "While each of these four features provides flexibility to the market, the complex nature of this functionality proposed unanticipated challenges or did not provide the expected value as originally conceived."

Forbidden zones are created when a combined-cycle plant is tasked with coming online quickly to meet unanticipated spurts in demand caused by sudden outages on the power network or heat waves that overload supply. Many facilities that are called on to provide such gap coverage are natural gas-fed turbine peaking plants. They cannot usually just increase power to meet even more demand without spinning up another turbine, Berberich explained.

"Most of these units are turbines like jet engines, and when we need more power, they have to ramp up another turbine to provide it," Cal-ISO spokesman Gregg Fishman said. The problem is, if one turbine can provide up to 50 MW but Cal-ISO needs 55 MW to meet a sudden demand for power, the peaker has to fire up the other turbine, which might provide another 30 MW into the grid. Both turbines in turn fire a boiler that heats and provides steam that produces another 20 MW or more. All of that additional power means some other unit has to back down 30 MW to allow the system to handle it without causing or increasing congestion.

Currently, Cal-ISO scheduling staff and plant personnel work together by phone and electronic communication to coordinate that juggling act, Berberich said. "The plan is to have that system continue until we have time to develop the combined-cycle modeling software to handle it."

The other three parts that Cal-ISO hopes the board will agree to defer are:

- Unlimited operating ramp-rate changes for generating units.
- Procurement of incremental ancillary services in the hour-ahead scheduling process.
- Automation of the commitment process for extremely long-start resources.

The price floor and ceiling are being proposed by management "as a safety cap to prevent potential severe settlement impacts that could result from extreme prices for energy, ancillary services and residential unit commitment capacity, but to do so in a manner that does not suppress meaningful economic price signals, including price signals for demand response," Laura Manz, Cal-ISO vice president for market and infrastructure development, said in a presentation prepared for the board. *—Daniel Guido*

ERCOT to boost generation backup for wind

The Electric Reliability Council of Texas, which in February was forced to cut power to some large industrial and commercial customers after a sudden drop in wind generation, plans to increase the amount of conventional generation used to back up wind capacity.

ERCOT's board earlier this week approved changes to the grid operator's methodology for determining how much reserve generation is necessary to serve load and maintain system frequency.

"We're coming into a wind-challenging time of year," said ERCOT spokeswoman Dottie Roark. "We already have more wind generation than we've ever had, and we're expecting much more to come online before the end of the year."

Beginning November 1, ERCOT will begin buying reserves based on wind and load forecasts rather than on a flat procurement, which traditionally has been equal to 1,354 MW, or the size of the largest power plant in ERCOT.

In addition, procurements of reserve generation will no longer be limited to peak load hours.

The increase in installed wind capacity also will be taken into account when determining reserve requirements for upcoming months, the board said.

ERCOT currently has roughly 6,000 MW of installed wind capacity. That number is expected to grow to more than 8,000 MW by the end of 2008 and to 8,500 MW in 2009.

But because of its intermittent nature, wind power has to be backed up by more conventional generation.

In February, ERCOT narrowly avoided a widespread outage by cutting power to some large customers after a sudden drop in system frequency resulting from loss of wind capacity, increased heating demand and lower-than-expected output from other generators.

Roark said, however, that the current methodology changes have more to do with substantial wind-capacity growth than February's events.

"Even if the events in February had not happened, we would still be seeing these changes," Roark said. "As we head into the fall and winter, wind is going to make up a larger portion of the generation picture, so it makes sense to have these changes in place ahead of time." *—Leticia Vasquez*

BoA, Merrill seek trading operations deal action

Bank of America and Merrill Lynch are seeking "expedited approval" from the Federal Energy Regulatory Commission of a deal that could lead to the merging of their two energy trading operations, according to documents filed with the regulator.

BoA, in trying to close by the end of 2008 its roughly $50 billion September 15 acquisition of Merrill Lynch, has asked FERC to approve a transaction that would allow it to merge its power marketing group, Bank of America N.A., with Merrill Lynch's power marketing group, Merrill Lynch Commodities. Both units are subject to FERC jurisdiction.

BoA told FERC that when it completes the acquisition of the parent firm, it will also have completed "an indirect acquisition" of Merrill Lynch Commodities. BoA said it is this indirect acquisition that requires FERC approval under Section 203 of the Federal Power Act.

BoA asked FERC for "an expedited review" because "the parties need to close their deal in a very difficult environment for the US and international credit and capital markets." It asked FERC for approval by November 17, "or sooner, if possible."

The filing to FERC says that after BoA's purchase of Merrill is complete, Merrill's commodity group, referred to in the filing as MLCI, will become an affiliate of Bank of America N.A., referred to as BANA.

The filing says that not all the plans for managing the two businesses, "post-transaction," have been worked out. However, it says "it is a possibility" the two will "integrate their respective power marketing businesses to the extent permissible for national banks."

The filing says that the integration may include sharing of personnel, the coordination of market information and the common management of risk.

"At some point" the two units may integrate their power marketing businesses "by transferring existing wholesale power contracts, personnel and related books and records from BANA to MLCI, or vice versa, again to the extent permissible for national banks," the filing said.

Merrill Lynch, which purchased the Entergy-Koch trading operation in September 2004, operates a 250-person energy trading team in Houston.

In the second quarter of 2008, that unit was ranked 14th among US wholesale power sellers, and 15th among North American natural gas marketers, according to Platts surveys. — *Jeffrey Ryser*

Dynegy, N.Y. AG in deal to disclose climate risk

New York Attorney General Andrew Cuomo on Thursday announced an agreement that will require Dynegy to disclose climate change-related risk related to its power plant portfolio in a move to provide investors with more clarity about a company's financial future as regulation bears down on carbon dioxide emissions in the US.

"Today we raise the bar in the industry and ensure transparency and disclosure in the marketplace. Investors have the right to know all the material financial risks faced by coal-fired power plants associated with global warming," Cuomo said in a statement.

Cuomo's office in August reached its first such settlement with Minneapolis-based Xcel Energy, and the state official expected that other companies will follow their lead.

Under the agreement, Houston-based Dynegy has agreed to provide disclosure of material risks associated with climate change in its 10-K filings to the Securities and Exchange Commission, including an analysis of material financial risks from climate change related to present and probable future climate change regulation and legislation, climate change-related litigation, and physical impacts of climate change.

The independent power producer also committed to a broad array of climate change disclosures, including current carbon emissions, projected increases in carbon emissions from planned coal-fired power plants, and company strategies for reducing, offsetting, limiting, or otherwise managing its emissions.

Dynegy said the company had used its SEC filings in the past to identify climate or other material risks, and the New York attorney general "did not find any weakness or impropriety in our past disclosures."

"We're going to continue to provide appropriate information to our investors about climate change risks. We'll do this through SEC disclosures. In the event that we identify a material risk, we're going to disclose them," said Dynegy spokesman David Byford.

Dynegy's power generation portfolio consists of more than 18,000 MW of power plants fueled by a mix of natural gas, coal and fuel oil. Some of its assets are located in states involved in the Regional Greenhouse Gas Initiative, a carbon cap-and-trade program set to go live January 1. New York is involved in RGGI as the largest CO2-emitting state in the program.

With RGGI and other regional and federal cap-and-trade efforts blooming, Cuomo in September 2007 subpoenaed the executives of several major energy companies for information on whether disclosures to investors in filings with the SEC adequately described the companies' financial risks related to their emissions.

In addition to Dynegy and Xcel, the companies that received subpoenas were Arlington, Virginia-based AES; Richmond, Virginia-based Dominion Resources; and St. Louis-based coal mining giant Peabody Energy. The inquiry regarding these remaining companies is ongoing, Cuomo's office said Thursday.

Dominion and AES have generating assets located in the RGGI region. RGGI recently held its first carbon allowance auction, with demand seen from generators as well as the financial sector. The allowance clearing price was $3.07. A second auction is scheduled for December. — Christine Cordner

Kelliher warns of low-cost climate solutions

The nation's chief energy regulator is urging policymakers and consumers to be as clear-eyed as possible about costs associated with a massive build-out of the electric transmission grid to handle future investments in clean energy.

"Sometimes there is a siren song that is very seductive, that we can reduce carbon emissions significantly, achieve very high levels of carbon reductions, and we can do so at no cost," said Joseph Kelliher, chairman of the Federal Energy Regulatory Commission.

"That is highly misleading," he said. "That is probably the most polite thing I can say about it."

Kelliher warned that if the US commits to carbon reductions in international talks aimed at getting an agreement before 2012 without first nailing down the cost scenarios, the policy will be unsustainable.

"The prospect of the US making a commitment to carbon reductions based on that false premise will result in a very quick reversal of US policy," he said. "That would be the worst possible outcome to make that kind of commitment and then reverse it."

Increasingly in the past year Kelliher has looked for opportunities to weigh in on the debate about how the US should address climate change. Energy regulators have a role to play, he says, given that so much of the discussion about policy options revolves around the mix of fuels and resources used to generate electricity.

The issue has also been thrust upon him because both candidates for president, Senators John McCain and Barack Obama, have said they support mandated carbon emissions reductions of between 60% and 80% by 2050. Leaders of the Democratic majority in Congress say they intend to continue work on a carbon trading scheme that would put a price on carbon emissions.

Climate legislation drafted by Representatives John Dingell of Michigan and Rick Boucher of Virginia, both Democrats, would assign FERC the role of overseeing a carbon trading market.

FERC regulates interstate power and natural gas markets and is charged with ensuring the bulk power system is reliable. And Kelliher, a Republican appointee of President Bush, readily acknowledges that until this year he failed to see the rapid convergence of environmental and energy policy.

"I have to say I was actually very slow to recognize that," he told an audience Wednesday night at the Johns Hopkins School of Advanced International Studies in Washington. "It now seems to be a terribly obvious reality."

Kelliher says he is arranging the first meeting of a FERC chairman and the head of the Environmental Protection Agency.

For decades, he said, policies targeting pollution and energy consumption ran on a different track than policies designed to ensure adequate energy supply. "I certainly operated on that basis for a very long time," Kelliher said, "and thought that it would somehow be improper for me to intrude on environmental policy and express an opinion on climate change."

As in the Senate debate this year over legislation sponsored by Senator Barbara Boxer, Democrat-California, much of the issue comes down to the size of the power supply, mix of fuels and prices 10 or 20 years into the future.

"The question is not whether there's a cost to carbon reduction but whether the cost is reasonable," Kelliher said.

If policy is made carefully, in the next year or two, and using reasonable expectations about advances in technology, the cost of addressing climate change might be reasonable, he said.

"The cost of climate change action is maybe reasonable when you weigh it against the societal harm of inaction," he said.

Kelliher reiterated concern about the way transmission grid expansions are sited. State authority in this area, and FERC's inability to use eminent domain to site interstate power lines, hampers policies encouraging a transmission build-out for wind generation and other clean energy resources.

"It might have been reasonable for Congress to provide for state siting in 1935," he said. "It is no longer reasonable. If we persist with state siting, the United States is not going to develop the grid that we need, to ensure reliability, to support competitive markets but even more importantly to successfully address climate change."

Kelliher in late July told a Senate committee that a federal process for siting transmission lines, similar to the way FERC sites interstate gas pipelines, is preferable to the contentious process for getting national electric transmission corridors in place.

There are more than 500 owners on a grid that ultimately serves North America. "We have the most robust grid, the largest grid, but it is hopelessly fractured," he said. "It's a barrier to investment, barrier to cost allocation and that results in a weaker grid than this country needs." *— Joel Kirkland*

FERC: ITC units can issue debt for transmission

The Federal Energy Regulatory Commission on Thursday authorized subsidiaries of ITC Holdings to issue $250 million in additional debt to be used for transmission projects, a measure the parent company says will not be affected by the global financial crisis.

FERC approved ITC Midwest's issuance of additional debt in the amount of $125 million in first mortgage bonds or other long-term debt, bringing the total amount of approved outstanding debt for that subsidiary to $375 million. ITC Midwest says the funds will be used for new transmission lines and improvements.

Separately, FERC approved the issuance of $155 million in debt for ITC subsidiary Michigan Electric Transmission that will bring that subsidiary's aggregate debt authorization to $415 million — $300 million in senior secured notes and other long-term debt securities and a revolving credit facility of up to $115 million.

ITC Holdings Director of Treasury and Investor Relations Patricia Wenzel said in an interview Thursday that the current chilly investment climate has not changed the company's plan to issue the securities.

"We have not changed any of our capital expenditures as a result of the credit crisis," Wenzel said. She said that because ITC's rates are regulated solely by FERC, and the company does not have to deal with state-level scrutiny of cost recovery, it is seen as a solid investment vehicle for banks and investment firms.

"We have a very secure regulatory structure that reduces the risk of our operating companies significantly because of our FERC-only regulation," Wenzel said. "We expect that if we do something in the near term that interest rates could be higher."

ITC Midwest is now authorized to issue debt in the aggregate of up to $300 million in first mortgage bonds or other long-term debt and an unsecured revolving credit facility of up to $75 million. ITC told FERC the debt securities will be issued to commercial banks, insurance companies and other institutions such as investment banking firms, and will bear interest related to market conditions.

ITC Midwest in its September 18 request told FERC the proceeds from the securities "will be used for general utility purposes, specifically for working capital, to improve transmission system capacity and reliability, and to increase economic benefits to customers through the construction and improvement of transmission infrastructure." ITC Midwest said a portion of the proceeds will be used to pay down the company's current unsecured revolving credit facility.

FERC also granted both companies' requested waiver of the commission's competitive bidding and negotiated placement requirements. ITC Midwest had told FERC that the successful placement of the securities "may require the selection of specific underwriters, agents and purchasers who are knowledgeable about ITC Midwest and highly qualified to be involved in such transactions."

"Such firms have a significant interest in devoting the requisite efforts to the due diligence and marketing necessary for the placement of such debt on terms beneficial to ITC Midwest and within the time schedules required by ITC Midwest to meet its needs," the company said. Without the waiver, "the ability of ITC Midwest to rely on such highly qualified firms may be unduly restricted," ITC Midwest said. *— Jason Fordney*

FERC OKs California city's energy crisis deal

The Federal Energy Regulatory Commission on Thursday granted a $14.2 million settlement between the city of Vernon, California, and several entities it traded with during the western energy crisis of 2000-2001.

The deal ends disputes that Vernon or any other market participant in the settlement illegally inflated prices for power, ancillary services or transmission congestion from January 1, 2000, to June, 20, 2001.

It also resolves issues regarding Vernon's transmission revenue requirement that, along with the TRRs of other participating transmission owners, is used to determine the California Independent System Operator's transmission access charge, said the Thursday order.

Under the proposed settlement, the California Power Exchange will release $5.5 million to Cal-ISO to resolve TRR amounts that Vernon owes Cal-ISO. As it applies to Vernon's TRR, the settlement is for the period between January 1, 2000 and April 30, 2008.

Cal-PX will release the remaining $8.7 million from an energy crisis escrow account to two escrow accounts that a group of market participants and governmental entities called the California parties established.

The California parties include Pacific Gas and Electric, Southern California Edison, San Diego Gas & Electric, the state of California, California Public Utilities Commission, California Electricity Oversight Board and the California Department of Water Resources. *— Esther Whieldon*

MOU lets Idaho Power, PGE jointly build lines

Idaho Power and Portland General Electric on Thursday said they signed a memorandum of understanding to possibly build transmission lines originating near the city of Boardman in eastern Oregon.

Idaho Power has applied for permits to construct a proposed 300-mile, 500-kV line connecting the Boardman power plant with the planned Hemingway station near Melba, Idaho. PGE is still evaluating plans for its proposed Southern Crossing 500-kV project. The MOU lets the utilities integrate a portion of the proposed lines if both projects move forward.

No major interregional transmission lines have been built in the Pacific Northwest in more than a decade, the companies said. Existing transmission lines in the region are often at or near capacity, creating significant bottlenecks in the system as demand increases in population centers served by generation in eastern Oregon and eastern Washington.

The utilities will explore interconnecting their projects with existing facilities in the Boardman area, which could contribute to development of an interconnected transmission hub in the area, they said.

The two projects are among a number of proposed transmission projects in eastern Oregon that are being coordinated by the Transmission Coordination Work Group. Idaho Power and PGE are both participants in the group.

"Transmission is a key factor in meeting today's growing electric demand," said Dan Minor, Idaho Power senior vice president for delivery. "Our regionally integrated approach with this project enables the proposed transmission line to benefit the Northwest region's electric grid."

PGE serves more than 813,000 residential, commercial and industrial customers. Idaho Power serves 485,000 residential, business and agricultural customers. *— Rod Kuckro*

US-Canada power line clears Montana hurdle

The Montana Department of Environmental Quality has issued a decision that will allow for the construction of the Montana portion of a broader transmission project that will interconnect the electricity markets of Alberta and the US through a 300-MW transmission line.

When completed, the line will run from Lethbridge, Alberta to Great Falls, Montana.

Canada based Tonbridge Power, the 100% controlling shareholder of the Montana Alberta Tie Ltd., or MATL, transmission line project said Wednesday that the Montana DEQ issued a record of decision authorizing the construction of

MATL's 230-kV merchant transmission line in Montana.

The specific authorization granted in the decision is a certificate of compliance as required under the Montana Major Facilities Siting Act and is the state permit required to proceed with the project.

The DEQ decision was issued 20 days after the DEQ and the Department of Energy jointly issued an environmental impact statement for the MATL line on October 1.

Tonbridge Power noted that the certificate of compliance authorizes the construction of a transmission line along the preferred alternative that was selected by the DEQ and the DOE and described in the final EIS.

The only outstanding permit required before construction can begin is a presidential permit to be issued by the DOE. The permit will allow Tonbridge Power to construct, operate, maintain and connect the MATL line across the US-Canadian border.

DOE must wait at least 30 days post issuance of the EIS before its record of decision and presidential permit can be issued, which would be in early November.

MATL received all the Canadian permits required to build the line earlier this year. *— Staff Report*

Kentucky muni looks to sell excess capacity

Kentucky based Owensboro Municipal Utilities is seeking proposals from parties interested in buying excess baseload capacity and energy from OMU, beginning in June 2010 and extending through December 2012.

OMU noted in the October 22 request for proposals that it owns and operates the 416-MW Elmer Smith power station, which is the primary source of power and energy for OMU customers.

When OMU's current power supply agreement terminates as scheduled in May 2010, the muni will have excess generation available from the plant for sale to qualified counter parties.

The types of energy and capacity proposals being considered by OMU includes, but is not limited to: system firm purchases of energy, unit firm purchases of energy and reliability capacity purchases.

Notices of intent to respond to the RFP are due by November 7 and the bids are due by December 1.

The RFP contact is: Jim Grise, director of finance, Owensboro Municipal Utilities. E-mail: grisejr@omu.org. Subject line: BID 08-11-064.

For more information, go to: http://www.omu.org/powerrfp.

OMU is the largest municipal electric and water system in Kentucky with more than 26,000 electric, 24,000 water and 3,200 telecommunications customers. *— Staff Report*

Puget gets antitrust OK for plant purchase

Bellevue, Washington-based Puget Sound Energy's plan to buy a 310-MW, natural gas-fired power plant in southwest Washington for $240 million on Thursday received federal antitrust approval.

In an early termination notice under the Hart-Scott-Rodino Antitrust Improvements Act, the Federal Trade Commission said neither it nor the Department of Justice's Antitrust Division plan to take enforcement action against the deal.

On September 25, the utility said it had signed an agreement to buy the Mint Farm plant in Longview, Washington, from Minnesota-based Wayzata Opportunities Fund, an investment fund managed by Wayzata Investment Partners.

The deal, which is part of an initiative to meet growing electricity needs in its service territory, is expected to close by the end of the year. It must be approved by the Federal Energy Regulatory Commission, which is expected to issue a decision in the fall, PSE said.

In January, PSE issued a request for proposals for up to 1,340 MW of supply resources, which would have to be online by 2015. Mint Farm was one of four projects on PSE's shortlist.

That list also includes two planned 20-year power purchase agreements with wind farms in Washington and Oregon, together totaling 250 MW of power capacity, and one short-term, winter-only PPA.

The population of PSE's service territory is expected to increase by more than 1 million people over the next 20 years. *— Staff Report*

Regulators question results... from page 1

payments that have not fostered new generation resources to be added as planned.

As expected, Commissioner Tyrone Christy was the harshest critic of PJM. Although Pennsylvania has about 90% of its generation from coal-fired and nuclear facilities, the state exports power and low-cost generators are reaping the rewards of capacity payments under the reliability pricing model approved by the Federal Energy Regulatory Commission, Christy said.

The ISO representatives, along with PJM Market Monitor Joe Bowring, testified on the benefits of ISOs in terms of enhanced reliability, more efficient dispatch of power supplies and pooled generation resources.

PUC Chairman James Cawley said the frustration of PUC members over costs and rules beyond their control should be familiar to former commissioner Glen Thomas, who testified for generators in the PJM Power Providers Group. "We simply need to be convinced that customers are getting value for their money," Cawley said of the RPM payments. If the commission is not convinced that RPM will work as designed, it has an obligation to Pennsylvania consumers to testify at FERC to change it, he said.

Thomas urged commissioners to take a long-term view of restructured markets, which might not have turned out as planned in 1996 but has produced wholesale power prices that are competitive and leading to new investments. Fundamentally sound markets are delivering value to consumers, Thomas said, though Christy shot back that he disagreed with most of Thomas' testimony.

Christy referred to a "striking disparity" between utility rates in states that have restructured and those that retained cost-of-service ratemaking, with utility customers in restructured states paying much more than those in non-restructured states. Arthur Mann, chairman of Donsco, which owns three foundries and a machine shop in Pennsylvania, said his company has not seen any benefits from restructuring and would consider moving to West Virginia if utility bills become unbearable when generation rate caps expire.

Cawley questioned Ott over cost-benefit analyses that are needed for merchant transmission projects, while other facilities enjoy a faster approval process at PJM. He referred to an Allegheny Power project to add capacitor banks and reactive power at the Meadow Brook substation, which would relieve congestion at the largest source of congestion in PJM. Following a September 9 letter to PJM, Cawley said he was told the project would take about two years because it would affect firm transmission rights of the utility.

PJM's own congestion cost analysis of the AP South Interface indicates that the limits of that interface are expected to cause more than $1 billion in congestion costs in 2008, Cawley said. He asked for an explanation of why PJM is waiting for the utility to address the issue rather than examining other alternatives, because "it is costing Pennsylvania ratepayers" and others in PJM. Ott vowed to provide a response.

In the letter to PJM, Cawley and commissioners Robert Powelson and Wayne Gardner said they "understand why incumbent transmission owners, many of whom are affiliated with generation providers, are not eager to promote transmission projects that might impact their revenues. However, we are disappointed that PJM, in its role as an independent transmission operator and system planner, is not proactively facilitating merchant responses to congestion and is not developing its own economic congestion relief solutions."

At the conclusion of the hearing, Gardner expressed disappointment that FERC Commissioner Marc Spitzer chose not to attend the session. The hearing largely was driven by a conversation Gardner had with Spitzer and FERC Chairman Joseph Kelliher over informing state authorities about FERC's oversight of wholesale markets. It is important for any regulatory agency to hear what stakeholders have to say, and "I encourage FERC to engage in a dialogue with this commission," Gardner said.

Spitzer was scheduled to speak at the public hearing, but canceled as a precaution to avoid a possible conflict with *ex parte* rules, FERC spokeswoman Mary O'Driscoll noted earlier this week. Those rules limit communications between FERC decision makers, such as commissioners and certain staff members, and other parties on subjects pending before the commission.

The PUC is holding a similar hearing November 6. Officials from the American Public Power Association, the Electricity Consumers Resource Council and Alcoa are scheduled to appear at next month's hearing, as well as Kenneth Rose, an independent energy consultant, and Bob Weishaar, an attorney with the law firm of McNees, Wallace and Nurick. — *Tom Tiernan*

NERC finds capacity margins improving… from page 1

introduced in New England earlier this year and has boosted resource adequacy in that region, the report says.

Long-term capacity margins are still inadequate, although there was a 4.2% improvement over last year's assessment and new demand response is projected to reduce peak demand in the US and Canada by 1% as of 2016. Projected transmission mileage increased by 14% over last year, NERC said. Summer peak load is projected to increase 16.6% for the 2008 to 2017 timeframe, compared to last year's 17.7% forecast.

Projected capacity additions are significant, although NERC acknowledged during a conference call Wednesday that its figure of 145,000 MW of new wind due to come online by 2017 includes many proposed projects sitting in interconnection queues around the country that might not be built. NERC listed other new supply of 25,000 MW of proposed coal plants and 9,000 MW of new nuclear by 2017. Consistent methods are needed to determine wind on-peak capacity to ensure accurate measurement of its contribution to capacity margins, according to the report.

Climate change initiatives such as greenhouse gas reductions, state renewable portfolio standards, clean water rules and other legislation will be one of the main factors affecting reliability, NERC said.

"Burning natural gas instead of coal at electricity-generating units to reduce greenhouse gas emissions involves important tradeoffs related to economic, environmental, infrastructure, and fuel supply considerations," NERC said in the report. "Converting existing capacity to natural gas poses substantial challenges due to fuel supply constraints, changes to infrastructure, and economic considerations."

Another major issue is a critical need for new transmission that will be needed to manage intermittent and remote wind sources due to come online, NERC said.

The Environmental Protection Agency is considering new standards for power plant cooling systems, and some units might be required to build "closed loop" self-contained systems. The added costs could cause some units to retire sooner, and the load requirement for the cooling equipment itself will result in a derating of some unit's output capability, NERC said. This could also affect capacity margins, NERC said.

NERC said that over half the 29 "disturbance events" occurring in 2006 were due to "misoperation" of system protection devices. NERC drew the analogy of a house fuse tripping off to describe such systems, which NERC President and CEO Richard Sergel said "are not operating as we would like. They are occasionally becoming part of the problem."

NERC said its 2008 long-term reliability assessment does not include the possible effects of the global financial crisis, but NERC is monitoring that impact and will reflect on it in future assessments.

NERC said the key findings outlined in the report are based on observations and analyses of supply and demand projections submitted by separate NERC regions in their long-term reliability assessments, assessment of the results by NERC staff as well as industry trends and comments. NERC said it is also monitoring another emerging challenge to the electric system reliability — an aging workforce that is a "growing challenge." — *Jason Fordney*

PJM looks to adjust credit policy… from page 1

In the event of a ratings downgrade or bankruptcy of the credit provider, PJM members have to post a letter from another bank or provide cash to cover their market activity.

Although PJM only accepts letters of credit from financial institutions with an A or higher credit rating, the rapid demise of Bear Stearns and Lehman Brothers Holdings revealed some potential risk for the organized electricity markets.

In PJM, the Lehman Brothers Commodity Services broker/dealer arm operated with a letter of credit issued by the high-rated parent company Lehman Brothers Holdings. Fortunately for PJM, no other member was operating with a letter of credit from Lehman Brothers Holdings.

At an upcoming meeting of the PJM Credit Risk Management Steering Committee scheduled for Monday, PJM will ask members to consider and vote on the question of whether to cap the dollar amount of the letters of credit provided by one institution. PJM suggests a 20% concentration cap, but "is open to CRMSC discussion of what that limit per letter of credit provider might be," Suzanne Daugherty, PJM CFO said.

At this point, it is not clear how the proposal would be implemented, if approved by this and the upper-level committee.

Earlier this year the same PJM committee rejected the idea of imposing limits on the cumulative magnitude of letters of credit PJM accepts from any one financial institution. The committee based its opinion on the fact that letter of credit providers are at least A rated and that the letters are backed by financial security provided by the PJM member to the issuer.

In the wake of the payment default of LBCS announced October 17, the New York Independent System Operator said Wednesday that it is also re-evaluating the health of the financial institutions that provide letters of credit for its members.
— *Milena Yordanova-Kline*