1998 – The Restructuring Process Unfolds

By Fereidoon P. Stosselni*

A hundred years from now, 1998 will be remembered as the year when it all began. Starting with California, by far the most populous state in the Union, down to Rhode Island, the smallest of the lot, industry restructuring is beginning to unfold around the United States. By the time the new millennium comes around, it will be the norm, not the exception, as other states follow suit. And as was the case with telecommunications (which closely resembles the electric power industry in a number of ways), competition will bring significant savings to some while massive, unnecessary confusion to others.

Competition is choice and having a choice is what Americans love, be it in renting a car or buying a soft drink. But will electricity prove to be a difficult and boring thing to shop for? Will enough people know how to do it or care enough to exercise their options? Will anybody switch suppliers given the admittedly small savings for the average consumer, the perception of risk, and the hassle factor involved? In the last issue of the Energy Informer, we asked “Who Will Switch Suppliers For A Measly 2-5% Savings?”, referring to the typical savings expected in California. At the time of this writing, we don’t have a clue, state regulators (in California) don’t know either, and those who do are not talking. An $89 million public education and information campaign in California has so far generated mostly yawns. Some 23,000 calls were received at a toll free number by mid-December from bewildered customers, most of whom only wanted to know how much their electric bills would drop?

But the 200 retailers and over 35 aggregators who have so far flocked to California from everywhere do not seem to be discouraged. They have been busy trying to sign up customers starting in November, and will be able to switch them over starting January 1, 1998. The incumbents are not sitting idle either. They have been reminding customers that they took good care of them all these years, encouraging them to hang around with them.

Most small customers are likely to do nothing, in which case they will remain with the incumbents who will buy electricity from the power exchange at prevailing prices and pass it on to them. This default provision is not a bad one for all but the most savvy and sophisticated of customers. As was pointed out in another Energy Informer article (“Will Competing Retailers Be Able To Beat The PX’s Price?” October ‘97), it will be hard to beat the power exchange’s price unless you are considered special or among a select group of customers in which case you may be offered a special deal (see below).

How Can Montana Power Offer Such a Good Deal?

California Manufacturers Association (CMA) is not your average lobbying group. Its 1000 plus members include well known giants such as Intel and Chevron who collectively run electricity bills on the order of $300 million annually.

During the California’s drawn-out political debate on how to restructure the electric power industry, CMA showed its muscle on numerous occasions. Now, it has pulled off another major coup for its members: the option to sign with an eager power marketer who is willing to offer standard two-year contracts at 8 percent below the power exchanges (PX) prevailing prices.

After checking out several other bidders including the state’s two big utilities, PG&E Corp and Edison International, CMA announced in early November that it has selected to go with Montana Power Trading & Marketing Co., the marketing subsidiary of Montana Power. Montana Power? What are they doing in California? And how can they beat the PX’s price by 8 percent?

The former question is easier to answer than the latter. Montana Power, like many other power marketers wants a foot in the California’s market to learn first-hand, to gain some exposure, and to test the market. Without the clout and the advertising budget of the likes of Enron and Southern Co. how can a small company get in the door? By offering a steal of a price. And that appears to be what Montana Power has pulled off with its incredible offer. Frank Rotondi, President of Montana Power put it bluntly when he said “It’s an excellent point of entry into the market.”

CMA members are not obliged to buy, but they have the right to do so – and it would seem stupid for them to decline the opportunity. Montana Power also offers longer term contracts with a variety of risk-managed options. William Campbell, President of CMA was delighted taking special pleasure in pointing out that Montana’s offer was selected over less attractive offers by the two California-based utilities. In an interview with The Wall Street Journal (3 November 1997), he was quoted as saying, “I think if they (PG&E and Edison) want to survive in this new market, they’re going to have to be as aggressive. I think this (i.e., the Montana deal) is going to spur them on.” Maybe yes, and maybe no.

But how can Montana Power offer such a good deal while the local utilities with all their might and muscle can’t? We put this question to a savvy power marketer who is in a position to know. His answer: “I don’t have a clue how they can pull this off.” His guess was that Montana Power may very well lose money on this deal. Perhaps it is a loss-leader, using the marketing industry jargon. Gaining market share in a crowded market is not an easy task. Perhaps PG&E and Edison were smart not to underbid Montana Power’s fantastic offer.

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Calendar


5 March, 1998, World Energy Efficiency Day. Austria. Contact: O.O. Energiessparverband, Landstrasse 45, A-4020 Linz, Austria. Phone: 43-732-6584-4380. Fax: 43-732-6584-4383. E-mail: esvl@esv.or.at


15-17 March, 1998, Middle East Petroleum & Gas Conference. Le Meridien Dubai. Contact: Conference Connection Inc., PO Box 1736, Singapore 911758. Phone: 65-356-0960. Fax: 65-356-0962. E-mail: cconnect@pacific.net.sg


18-19 March, 1999, Middle East Jetfuels Conference. Le Meridien Dubai. Contact: Conference Connection Inc., PO Box 1736, Singapore 911758. Phone: 65-356-0960. Fax: 65-356-0962. E-mail: cconnect@pacific.net.sg

19-20 March, 1998, Successfully Developing Private Energy in Brazil. Wyndham Miami Biscayne Bay, Miami, Florida. Contact: Center for Business Intelligence, 500 West Cummings Park, Ste. 5100, Woburn, MA 01801. Phone: 781-929-2438. Fax: 781-939-2490. E-mail: registrar@chinet.com


24-26 April 1998, Third Annual Gas & Electricity Trading Summit. Doubletree Hotel, Houston, Texas. Contact: Global Change Associates. Phone: 914-919-6798. Fax: 914-918-5301. E-mail: 76111.424@compuserve.com


29-30 April 1998, 1998 Utility Strategic Marketing Conference, Orlando, Florida, USA. Contact: June Appel. Phone: 610-667-2160. Fax: 610-353-8897. E-mail: appelj@earthlink.com

13-16 May 1998, 21st IAEE International Conference. Quebec City, Canada. Contact: IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-5365. Fax: 216-464-2737. E-mail: iaee@iaee.org URL: www.iaee.org

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8-11 June 1998, 9th Global Warming International Conference & Expo. Hong Kong University of Science & Technology. Contact: Dr. Sinyan Shen, Chair, International Program Committee, Global Warming International Center, PO Box 5275, Woodridge, IL 60517-0275. Phone: 630-910-1551. Fax: 630-910-1561.

14-18 June 1998, National Energy Conference CNE'98: Energy for Tomorrow - Reconciliation of Efficiency and Competitiveness with the Sustainable Development. Neptun, Romania. Contact: Mrs. Ella Ratcu, CNE'98 General Secretariat, 8 Energeticienilor Blvd., 79619 Bucharest 3, Romania. Phone: 401-321-4465. Fax: 401-321-1010. E-mail: srai@mail.gsci.vsat.ro


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