This message was found to have a Critical Word in it. Message Sent to Stern, Todd; 'brazos@hotmail.com'; Gallagher, Una; Buck, Bill; Weaver, Elizabeth; Gensler, Gary; Sachs, Lee; Sandberg, Sheryl; Summers, Larry; Moe, Martin; Wolin, Neal; Fland

Word(s) found: Enron, Kenneth Lay, Ken Lay

-----Original Message-----
From: Klaskey, Helaine
Sent: 1/14/2001 12:57:52 PM

To: Stern, Todd, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=DOM3.DOPO5.SternT 'brazos@hotmail.com', SMTP'brazos@hotmail.com
Gallagher, Una, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=HALLGHERU
Buck, Bill, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=BUCKW
Weaver, Elizabeth, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=WEAVERE
Gensler, Gary, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=GENSLERG
Sachs, Lee, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=SachsL
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Flanders, Stephanie, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=DOM3.DOPO5.FLANDERSS
Bordoff, Jason, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=DOM3.DOPO5.BordoffJ
Mooe, Holly, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=DOM3.DOPO5.MOOREH
Comstock, Neal, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=DOM3.DOPO5.COMSTOCKN
Wechsler, William, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=WECHSLERW
Klaskey, Helaine, EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=KlaskyH
Smith, Michelle A., EX: O=USTRUSTURY/OU=DO/CN=RECIPIENTS/CN=SMITHM
patrick.dorton@opd.eop.gov, SMTP:patrick.dorton@opd.eop.gov
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CC: Subject: CA Energy Talks – Press Clips

Body:

Compromise Plan Is Urged in Energy Talks

The New York Times via Dow Jones

Publication Date: Sunday January 14, 2001
National Desk: Section 1; Page 30, Column 2

By JOSEPH KAHN

WASHINGTON, Jan. 13 -- Clinton administration officials pressed politicians, utilities and energy providers today to agree on a compromise plan to end the electricity crisis that has left California, the nation's most populous and richest state, on the brink of darkness.

With Gov. Gray Davis and California lawmakers participating by satellite link, Treasury Secretary Lawrence H. Summers presided over an afternoon negotiating session here that participants said aimed to keep the state's main utilities financially solvent while arranging long-term supplies of power to
address critical shortages.

Participants said teams of negotiators had worked out compromise proposals to relieve the energy crisis by earlier today, potentially allowing the governor and power companies to reach a final agreement soon. But some participants in the talks warned that negotiations could continue through the weekend.

"I don't think any of us expect to get to the finish line tonight," Gene Sperling, director of the National Economic Council, told reporters gathered at the Energy Department for the talks.

"I expect us to have continued work over the weekend and over the holiday," Mr. Sperling said.

The goal of the talks was to smash through the logjam that has paralyzed California's power industry after partial deregulation in 1996. Amid severe shortages, the PG&E Corporation and Edison International, the state's major utilities, are paying far more to buy power than they are allowed to charge consumers to use it. They face $12 billion in debt and possible bankruptcy.

The situation became critical last week when a storm reduced power production and increased demand to the extent that officials warned that it might be necessary to shut off power to parts of the state. Any intentional blackouts would have been the first in California since military officials ordered lights-out to deny Japanese bombers easy nighttime targets during World War II.

Because of the electricity shortage and the financial troubles of utilities, out-of-state companies that sell power to California are charging exorbitant prices on the spot market for immediate delivery. Utilities say they cannot afford to buy power at those prices because under the deregulation law they cannot pass the increased costs on to consumers.

The state has accused power producers of price gouging. The producers say that California's problems are home-grown and that the prices reflect widespread shortages and fears that the state's utilities could collapse without paying their debts.

Bringing the negotiations to a successful conclusion is tricky, participants said. Mr. Davis will inevitably be faced with delicate political choices. On the one hand, he must work to lift the threat of power outages. On the other, California residents and businesses will ultimately bear the burden of any solution, perhaps by paying twice as much for electricity as they do now.

Consumers groups are fighting any agreement that would result in substantially higher electricity prices. They argue that the out-of-state producers have already pocketed a windfall from the state's power crisis and that residents should not pay more to help them profit more.

Clinton administration officials said the federal government had no direct role in the matter. But the financial health of multibillion-dollar utilities and the threat of power shortages in the nation's technology center have raised concerns that California's problems could rattle the national economy, which already shows signs of slowing.

Mr. Summers, Mr. Sperling and other senior officials involved are helping to broker a compromise and to put pressure on both the power producers and the politicians to reach a settlement, administration officials said.

Mr. Davis, along with the governors of neighboring Oregon and Washington, have argued that the federal government should impose a price cap on wholesale power to rein in the volatile spot market.

Energy Secretary Bill Richardson said he favored a price cap. But that option was rejected by the Federal Energy Regulatory Commission, an agency that regulates electricity sales between states.
Under one possible compromise, the state would arrange long-term contracts to buy electricity on the wholesale market at fixed prices far below today's spot price. The state would then pass that power on to utilities to distribute to consumers.

Both utilities and power generators consider that idea workable, participants said. Utilities would be assured of recouping their costs under the plan, while generators would agree to sell power in coming years at prices well above those that prevailed a year ago, though far below panic prices today.

One outstanding issue is the length of those purchase contracts. Power generators have pushed for the contracts to last up to 13 years. The state would prefer that they extend for only a few years.

Negotiators have also considered a plan that would allow the utilities themselves to enter long-term contracts, participants said. Power generators would have to agree to allow the utilities to suspend debt payments for a grace period while they repair their finances.

California's Energy Future Looks Dim; Problems Brought on by Deregulation Plan Defy Easy Solutions
The Washington Post via Dow Jones

Publication Date: Sunday January 14, 2001
A Section; Page A1
Copyright 2001, The Washington Post Co. All Rights Reserved
By Rene Sanchez and William Booth
Washington Post Staff Writers

LOS ANGELES, Jan. 13 -- After months of warnings, threats and hand-wringing about power shortages in the country's richest and most populous state, Californians this week finally came face to face with darkness.

As a huge winter storm sent demand for electricity outstripping supply along the West Coast, operators of the state's power grid declared a Stage Three emergency Thursday, which meant that electricity reserves had fallen so low that the first mandatory statewide blackouts since World War II were imminent. The crisis worsened when the San Diablo nuclear plant idled its twin reactors for fear that kelp tossed by high waves could block the plant's water-cooling intake pipes.

The state narrowly averted turning off the lights for millions late Thursday -- at rush hour, during a severe storm -- after Gov. Gray Davis (D) got on the telephone to beg for electricity from power providers in the Pacific Northwest and Canada. The storm was just the latest blow to California's two largest electric utilities, which have been pushed close to bankruptcy by their inability to pass on much higher wholesale power prices.

The system-wide meltdown brought about by a poorly executed deregulation plan defies easy solutions. The problems are so dire that in Washington today, Gene Sperling, director of the National Economic Council, along with Treasury Secretary Lawrence H. Summers and other administration economic officials, held emergency talks via teleconference with Davis, California energy authorities and company officials.

During the seven-hour conference, a new proposal by Davis was considered in which the state would purchase power, preferably at favorable terms, to sell to the utilities. Davis hopes to announce the plan by Tuesday morning, Sperling said. "I'm hopeful we'll have a deal as soon as humanly possible," added James J. Hoecker, chairman of the Federal Energy Regulatory Commission (FERC).

With each new dire warning of power blackouts or utility bankruptcies, the consequences of California's energy quagmire, for the state, the West and even the nation, are becoming more obvious and extreme.
This week, Silicon Valley manufacturers warned Davis that the state had better get its energy supply in order, or they would look to move their operations. The head of Intel Corp. declared that the unreliability of power in California means that the company would build its new manufacturing facilities out of state.

"This energy crisis is probably the most critical issue Silicon Valley has faced in last the 30 years," said Carl Guardino, president of the Silicon Valley Manufacturers Group, a powerful association composed of 190 of the largest companies in the high-tech corridor.

Most sides agree that the central problem in California is that it only partially deregulated its energy markets in 1996. The state allowed power generators to operate freely, charging whatever the wholesale market will bear for their electrons, but it kept in place retail price caps for the utility companies that buy the power and deliver it to homes and businesses.

This has pushed two of the state's largest utilities -- Southern California Edison and Pacific Gas & Electric -- to the brink of bankruptcy.

The two utilities say they have accumulated some $12 billion in uncompensated costs because of the high prices they are paying for wholesale electricity from the power generators. Wall Street has threatened to slash their credit ratings, making it harder for them to borrow the money they need to buy power. The utilities are seeking rate increases to ease their debt, but the governor and California energy officials are loath to see ratepayers hit with bills that could double or triple.

If the state resorts to rolling blackouts, it risks undermining a still-strong economy.

"There is a ripple effect that could be a tidal wave in California," Guardino said.

If a computer chip manufacturing plant suddenly loses power, Guardino said, the assembly lines grind to a halt, the product is potentially lost, the line must be retooled, a process that can take days. Orders are not met; stock prices can tumble.

Energy is so vital to the many giant tech companies headquartered in Silicon Valley that even a one-day power outage, such as the one that occurred last June, can cost as much as $100 million.

If the state bails out its two biggest utility companies, or lets them keep raising rates for electricity, it risks the wrath of consumers who already believe their energy costs are too high and who, according to polls, are still questioning the severity of the crisis. In San Diego last summer, consumer rates rose 300 percent when they were left to the whims of the open market.

As California's crisis deepens, states across the West are nervously watching. The Pacific Northwest, in particular, is apprehensive because consumers and industries there are already facing higher energy costs because of California's needs. Electricity consumers in Oregon and Washington have already been pressed to reduce their power use by 10 percent.

On Friday, the governors of Oregon, Washington and California met in Sacramento to provide a united front and to reaffirm that they are all in this mess together.

Traditionally, California utilities ship power north to Oregon and Washington in the winter and take the power back during the summer to run California's air conditioners.

But not this year.

Washington Gov. Gary Locke (D) said that light snow and rain have dropped water levels in the Pacific Northwest, raising concerns that the region's
network of hydroelectric dams might not be able to produce enough power for their own needs, let alone California's.

"We have very low water," Locke warned, "and we're concerned about our ability to have enough energy in the spring. We don't know if we can ship energy down [to California] in the summer."

Western governors will meet Feb. 2 in Portland at an energy conference to address the region's power problems, and Oregon Gov. John Kitzhaber (D) expressed his hope that the crisis "will not descend into partisan bickering." The three West Coast governors are Democrats. The governors of the other western states are Republicans.

Davis said the West Coast governors are united and that together they will press the FERC to agree to place price caps on wholesale energy costs.

"We need a timeout," Davis said, "for our markets to stabilize." The California governor, who said the state will continue at least temporarily to buy electricity for the utilities, noted that he is not against wholesale energy providers making a profit, "but not at cost of our economy."

Yet the FERC has resisted firm price caps for wholesale power, and its position may be hardened by the incoming Bush administration, which will appoint new members to the commission.

The situation is further complicated by the fact that many of the energy producers -- whom Davis has called "pirates" and "marauders" -- are Houston-based companies such as Reliant Energy Inc. and Dynegy Inc. Many are waiting to see if Bush, a former oilman from Texas, will smack the industry with price caps.

For months, as the electrical supply-and-demand predicament has grown worse, California has relied on desperate patchwork moves to avoid a power meltdown.

It has declared several dozen statewide emergencies of varying degrees to urge consumers to conserve more power, but that has not been much help. A blackout, some authorities say, might be the only step that could seize the public's attention and force it to change its energy-inefficient habits. Yet there are questions about how much more efficient it can be. Davis points out that the state ranks among the most energy efficient on a per capita basis.

California's Public Utility Commission also recently approved a limited emergency rate increase of 9 percent to 15 percent. Meanwhile, the state has persuaded federal energy officials to extend an unusual emergency order, three times, that requires power suppliers around the country to sell surplus electricity to the state's beleaguered utilities even though they have poor credit.

But there is a growing consensus that the state may be out of miracles. And that no way out of the energy morass will be quick, painless or cheap. Eventually, the utilities, ratepayers, energy providers and taxpayers will likely be given the bill.

"There is no doubt that it is going to be very, very expensive to dig us out of this hole," said Carl Wood, a member of the Public Utility Commission.

The state's next challenge is the threatened stoppage of deliveries of natural gas, which heats homes and fuels electricity generation. One supplier has stopped delivering gas to Pacific Gas & Electric, and it says another supplier will cut off the flow next week because of concerns it won't be paid. Today, Davis asked Energy Secretary Bill Richardson to use federal emergency powers to keep the gas flowing.

To Davis and other state leaders, imposing more immediate rate increases on California consumers is out of the question. The governor is also resisting calls to bail out the debt-ridden utilities with state bonds. Instead, he wants
to shift California back to a system that relies more on government oversight of energy markets.

A key remedy that negotiators tackled at this weekend's teleconference in Washington and Los Angeles would have the state enter into long-term agreements with power suppliers to buy electricity at fixed rates, then sell it to utility companies. But some consumer groups are warning that such a deal could keep consumer bills artificially high the next time market prices for energy drop.

**Davis Says State Will Buy Power for Resale to Utilities**

Electricity: The governor announces the plan for purchases at reduced rates during a long conference of top officials. Other participants are less optimistic.

Los Angeles Times via Dow Jones

Publication Date: Sunday January 14, 2001
Page A-1
Los Angeles Times (Home Edition)
Copyright 2001 / The Times Mirror Company
By DAN MORAIN and MITCHELL LANDSBERG
TIMES STAFF WRITERS

With California's major utilities teetering near bankruptcy, Gov. Gray Davis announced a plan Saturday under which the state would buy power at reduced rates and resell it to the battered companies to stabilize California's haywire electricity market.

The proposal -- meant to end the threat of blackouts and economic chaos in California -- came near the end of an extraordinary bicoastal video and telephone conference in Washington, Los Angeles and Sacramento.

While Davis presided over a gathering in Los Angeles of two dozen top state officials and energy company executives, U.S. Treasury Secretary Lawrence Summers chaired the Washington end, flanked by top federal officials as well as representatives of utilities and power generators.

Seven hours into the meeting, Davis, joined by legislative leaders, held a news conference to proclaim a bipartisan agreement that could help solve California's vexing energy problems. Davis said the Legislature would consider the plan Tuesday.

He said the state would buy electricity through long-term contracts at rates sharply lower than utilities have been paying. California would then resell it to the companies at cost, although terms have not yet been determined.

As Davis made the announcement, however, participants in Washington ended their meeting sounding glum about what had been accomplished.

"We're still digesting it," said Joe Bob Perkins, president and chief operating officer of Reliant Energy Wholesale Group.

And in Los Angeles, state Senate Republican leader Bill Campbell appeared less than convinced that the state's ordeal was over. "I guess I'm encouraged," he said, adding, "The answer is going to be in the numbers."

Those numbers would be the price of energy the state can negotiate, and the length of the contract the producers demand.

Earlier in the day, Summers had asked Davis to hold an auction in which generators and middlemen would sell electricity to the state, which would then resell it to the utilities. The state's two biggest utilities, Pacific Gas & Electric and Southern California Edison, are so cash-strapped that they lack the credit to strike deals with some electricity sellers.

The top executives of the two utilities were at the table with Davis at his
office in the Ronald Reagan State Building in downtown Los Angeles. They did not, however, join him at the news conference announcing the plan.

Davis said the state intends to move forward "at warp speed," and urged energy producers to begin making bids to the state immediately. It was not clear whether the bids would be considered at an auction or through a more traditional state bidding procedure.

The governor said the state expects to purchase power at "vastly reduced rates," and he promised that consumers would not see any more rate increases.

The utilities said they needed some kind of relief by Tuesday, when they face major debt payment deadlines.

One or both utilities could go bankrupt as early as Tuesday, said some involved in the talks.

The idea behind Davis' deal is that it would allow the state to guarantee a return to stability for energy consumers—not only residential customers but businesses whose future in California depends on the availability of reliable, affordable energy.

Davis, a participant in the meeting said, indicated that he wants limits on the state's liability and guarantees that its coffers would not be bled if it enters the electricity business in a major way.

At one point, Assembly Speaker Bob Hertzberg (D-Sherman Oaks) said that the utilities would have to suffer more financial pain. Though it was not a topic of the conference on Saturday, lawmakers have suggested receiving concessions from utilities, ranging from a seat on their boards of directors to stock options for consumers.

Davis said the utilities would not be getting back all the money they lost in the state's runaway energy market last year. But he said it was important to save them.

"Clearly, we want to avoid bankruptcy," he said. "Our fate is tied to the utilities' fate. They know better than anyone how to keep the lights on."

Under the proposal, state government would strike long-term deals for electricity, which it would sell in the state's energy marketplace. The state also would push to restructure long-term contracts that utilities have with wind, solar and other alternative power producers to lower the cost of electricity.

For their part, utilities also would make power from their nuclear and hydroelectric plants available for consumption in California, rather than selling it in the market as they are required to do now. While consumers might not have higher bills, the utilities could use the difference between what they pay and the retail price to restructure their debt and pay it down over a period of years.

Not present at the meeting, and apparently not invited, were any representatives of consumers, who stand to ultimately pick up the tab for the deal.

Harvey Rosenfield, head of the Foundation for Taxpayer and Consumer Rights in Santa Monica, said consumer advocates had asked to be represented at the meeting but were told there wasn't room.

"When politicians, bureaucrats and utilities get together behind closed doors, it's always bad news for consumers," he said. "You know the outcome is going to leave consumers footing the bill."

Political and business leaders say the sense of urgency surrounding the negotiations can be explained by the fact that the state's situation is so dire
and because PG&E and Edison owe installments on their debts Tuesday.

California deregulated its energy market beginning in 1998. It was a leap into the unknown that was nevertheless expected to lead to lower prices for consumers. It has done anything but that since last May, when electricity prices--prodced upward by rising natural gas prices and by supply shortages--went through the roof.

PG&E and Edison together spent more than $11 billion more for electricity in 2000 than they received from consumers, who remained insulated by the remnants of state regulation.

The state nearly had to resort to statewide rolling blackouts Thursday when power reserves dipped below 1.5% of total usage.

The utilities--and their customers--were rescued at the last minute by the state Department of Water Resources, which bought power that the state energy marketplace couldn't buy because its credit, backed by utilities, is so poor.

One participant in the negotiations, natural gas executive Kenneth Lay, has been a friend, donor and advisor to incoming president George W. Bush.

Lay, chairman of the Houston-based natural gas pipeline company Enron Corp., who attended the meeting in Los Angeles, was part of a large group of outside advisors involved in shaping Bush's energy policy, campaign aides say. Now Lay is serving on an energy policy advisory committee that Bush assembled for the transition.

Power crisis talks to move back to California

By Patrick Connole

WASHINGTON, Jan 14 (Reuters) - California Gov. Gray Davis will lead last-ditch talks in his state starting on Sunday to save the Golden State's two largest utilities from bankruptcy and ensure long-term power supplies to the nation's most populous state.

After a seven-hour bi-coastal video conference on Saturday -- led in Washington D.C. by Treasury Secretary Lawrence Summers and by Davis in Sacramento, Calif. -- California officials are now in charge of settling the power crisis over the long Martin Luther King, Jr. holiday weekend.

"The governor laid out a framework for him and the legislative leadership to work on," said White House National Economic Council Director Gene Sperling, speaking to reporters after the marathon session with state officials and industry executives.

"The issue is now for them to work out the proposal."

Energy Department officials said the talks would convene in Sacramento, and possibly other locations, in California on Sunday and continue through the weekend.

A federal offer to reconvene a high level meeting of the 25 "principles" on Tuesday was made, according to Sperling, who said "we stand ready and available" if needed.

Soaring wholesale power prices and an inability to pass those costs on to consumers have drained more than $12 billion from PG&E Corp. <PCG.N> and Edison International <EIX.N>, pushing them to the edge of bankruptcy.

With supplies of electricity already stretched to the limit, a severe winter storm earlier this week sent the state close to rolling blackouts. The crisis was averted by a last-minute injection of hydropower from the federally-owned Bonneville Power Administration in the Pacific Northwest.

Industry experts view Tuesday as a crucial deadline for settling a deal since it marks the first day financial markets open after the long weekend. Bond rating services and stock market traders are expected to hammer PG&E and Edison if a deal
Summer said state leaders had a "clear recognition" of what the situation was, and would work in an "expedited" manner to complete a settlement.

Saturday marked the fifth consecutive session of talks in the nation's capital, and the second seven-hour meeting of the top leaders, minus Energy Secretary Bill Richardson who missed the Saturday session while traveling in the Middle East.

Technical discussions took place Wednesday through Friday. The talks focused on core issues, such as plans for power generators, owed billions by PG&E and Edison, to delay seeking money for a period of 90 days pending state assurances that the debts would be paid.

Industry and government sources said the discussions were also keyed on trying to establish the terms of long-term contracts between power generators and utilities.

Long-term contracts would allow the utilities to hedge against having to buy electricity in the spot markets. In recent days wholesale power sold on the spot market has commanded around $320 per megawatt-hour, compared to $34 one year ago.

Wall Street analysts and sources close to the talks said the state wants a price cap of $55 per megawatt hour for long-term contracts, but that level may not be high enough for out-of-state generators who see $70-$90 as more reasonable.

California's 1996 law deregulating the electricity market, once hailed as a model for others, lies at the core of the problem. The law forced utilities to sell off much of their generating capacity, prohibited them from signing long-term contracts to buy supplies and barred increases in consumer rates until 2002.

(Washington Energy Desk, +1 202 898 8316 email: washington.commodsenergy.newsroom@reuters.com)

White House says Calif. must act on power crisis (recasts with meeting ends, new throughout)

By Patrick Connole

WASHINGTON, Jan 13 (Reuters) - Clinton administration officials ended a marathon negotiating session late Saturday saying it was up to California lawmakers and the governor to finalize a plan by Tuesday to stave off bankruptcy for two huge utilities.

Negotiators made some progress on two key issues, allowing California's major power companies to reach long-term contracts with power supplies, something that is now illegal, and getting a grace period to pay debts, sources said.

Soaring wholesale power prices and an inability to pass those costs on to consumers have drained more than $12 billion from PG&E Corp <PCG.N> and Edison International <EIX.N>.

With supplies of electricity already stretched to the limit, a severe winter storm earlier in the week sent the nation's richest and most populous state perilously close to rolling blackouts.

Gene Sperling, director of the president's National Economic Council, made it clear that the ball was now in the court of California Gov. Gray Davis and state lawmakers. They must hammer out a solution to the state's chronic power woes over the next two days before Wall Street reopens on Tuesday.

"The governor laid out a framework for him and the legislative leadership to work on," Sperling told reporters after a meeting with state officials and industry executives. "The issue is now for them to work out the proposal."

Treasury Secretary Lawrence Summers mediated the seven-hour negotiating session, which took place after four previous days
of talks with lower-level officials.

California's 1996 law deregulating the electricity market, once hailed as a model for others, lies at the core of the problem. The law forced utilities to sell off much of their generating capacity, prohibited them from signing long-term contracts to buy supplies, and barred increases in consumer rates until 2002.

MORE TALKS ON SUNDAY

U.S. Energy Department officials said the next round of talks would take place in California on Sunday.

Tuesday is considered crucial because that is when Wall Street traders and analysts return to work after a three-day U.S. holiday weekend. Financial markets have been anxiously watching the negotiations to evaluate the bankruptcy threat to PG&E and Edison.

"There are an awful lot of things still in play," said James Hoecker, chairman of the Federal Energy Regulatory Commission and one of the negotiators.

Hoecker and his independent federal agency with jurisdiction over interstate electricity markets have been sharply criticized by California officials for refusing to slap a cap on wholesale power prices throughout the western region.

Negotiations began in Washington last Tuesday aimed at finding both immediate and long-term solutions to California’s power woes. The two dozen officials involved broke into several working groups during the week to focus on different issues.

Sources close to the talks told Reuters that progress had been made on key issues such as allowing PG&E and Edison to enter into long-term supply contracts with power generators, something current state law prohibits.

Progress was also made, according to the source, on out-of-state generators giving PG&E and Edison a grace period of 90 days to pay their debts, pending a state guarantee of the amounts owed.

"The generators are looking for that state guarantee," the source said.

Another provision under discussion would aim to cap wholesale prices at a more reasonable level for long-term contracts. And out-of-state power generators were pressing for a final plan to require the state to take on a new role by purchasing some wholesale power and reselling it to utilities.

CONSUMERS WATCHING OUTCOME

Consumer advocacy groups have been keeping a close eye on the negotiations.

They have denounced any attempt to allow the utilities to pass through the soaring wholesale power prices charged by out-of-state generators, saying the industry has enjoyed big profits since deregulation and should have been better prepared for the state's current tight supplies.

The power emergency has pitted California utilities against out-of-state power generators such as Dynegy Inc. <DYN.N> and Reliant Energy <REI.N>, who sold extra electricity to PG&E and SoCal Edison at rising spot market prices.

Wholesale power sold on California's spot market briefly soared above $1,000 per megawatt hour but has since fallen to around $320 per megawatt hour -- still expensive compared to $34 per megawatt hour one year ago.

Another key participant in the talks has been Ken Lay, the chairman of Enron Corp. and an energy adviser to President-elect George W. Bush.

[(Washington.commdsenergy.newsroom@reuters.com)]

REUTERS
Rtr 01:30 01-14-01
Peds, state and utilities meet to broker electricity deal
consumer advocate's quote. Pickup 6th graf pvs: 'A state ....
Expected to stand for AMs
By LEON DROUIN KEITH=

LOS ANGELES (AP) State, federal and utility company officials
negotiated for seven hours Saturday on a plan that could make
California a long-term electricity broker in an attempt to resolve
the state's electricity crisis.

No decisions were reached during the live satellite hookup, but
further talks were scheduled.

President Clinton's top economic adviser, Gene Sperling, said he
believed there would be further talks in the next two days.
'I don't think any of us expect to get to the finish line
tonight,' Sperling said. 'I think we can still make some more
progress.'

Gov. Gray Davis, who's been pushing to put the state into the
broker's role, said California is 'a credit-worthy purchaser. All
of us that met today are joined at the hip and if we are going to
move forward, we will move forward together.'

Representatives from power providers Pacific Gas & Electric and
Southern California Edison refused comment after the meeting.

Douglas Heller of The Foundation for Taxpayer and Consumer
Rights, a consumer advocacy group, was wary about the plan.
'If the state becomes a public power agency buying electricity,
will the public benefit from that?' Heller asked. 'Or is it a
mechanism for giving utilities their bailout?'

A state agency, under emergency powers from Washington, already
has spent roughly $30 million buying electricity in the past month
to stave off rolling blackouts during the California power crisis.
Officials want the state to expand and continue wholesale
electricity buys, selling the power to utility companies, said
Steve Maviglio, a Davis spokesman.

The California Department of Water Resources made the earlier
electricity purchases, including about 24,000 megawatt hours of
electricity on Thursday and Friday, Carl Torgersen, the
department's chief of utility operations, said Saturday. The
department acted under authority of emergency orders by U.S. Energy
Secretary Bill Richardson.

'(This) is something we've never done before,' Torgersen said.
'We're in a new era with deregulation.'

Wholesale power prices have increased fivefold in California
since last summer, accompanied by a series of drops in the state's
power reserves.

On Thursday, power reserves in California dipped below 2 percent
after a storm cut production at a key nuclear station.

The Independent System Operator, which manages most of the
state's power grid, said electricity supplies had rebounded but
were still tight.

Davis and Goves. John Kitzhaber of Oregon and Gary Locke of
Washington said Friday that they would urge their residents to cut
electricity demand 7 to 10 percent, try to reduce power use by
their state governments by at least 10 percent, and look into
joining forces to buy energy-efficient products for state and local
agencies to get through the crisis.

Davis and California's two largest investor-owned utilities have
pointed fingers at energy wholesalers, saying they have exacerbated
the crisis by taking advantage of the tight supplies for their own
profit.

Pacific Gas & Electric Co. and Southern California Edison, both
electricity retailers, say they have lost more than $9 billion
because of wholesale price increases and the state's 1996
deregulation law that froze rate hikes. The utilities, which won
permission to raise rates, said the temporary increases approved by
the state Public Utilities Commission weren't enough and have
warned they could go bankrupt if something isn't done.
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Fed's, state and utilities meet to broker electricity deal
consumer advocate's quote. Pickup 6th graf pvs: 'A state ....
Expected to stand for AMs
By LEON DROUIN KEITH=
LOS ANGELES (AP) State, federal and utility company officials
negotiated for seven hours Saturday on a plan that could make
California a long-term electricity broker in an attempt to resolve
the state's electricity crisis.

No decisions were reached during the live satellite hookup, but
further talks were scheduled.

President Clinton's top economic adviser, Gene Sperling, said he
believed there would be further talks in the next two days.
'I don't think any of us expect to get to the finish line
tonight,' Sperling said. 'I think we can still make some more
progress.'

Gov. Gray Davis, who's been pushing to put the state into the
broker's role, said California is 'a credit-worthy purchaser. All
of us that met today are joined at the hip and if we are going to
move forward, we will move forward together.'

Representatives from power providers Pacific Gas & Electric and
Southern California Edison refused comment after the meeting.

Douglas Heller of The Foundation for Taxpayer and Consumer
Rights, a consumer advocacy group, was wary about the plan.
'If the state becomes a public power agency buying electricity,
will the public benefit from that?'' Heller asked. 'Or is it a
mechanism for giving utilities their bailout?'

A state agency, under emergency powers from Washington, already
has spent roughly $30 million buying electricity in the past month
to stave off rolling blackouts during the California power crisis.
Officials want the state to expand and continue wholesale
electricity buys, selling the power to utility companies, said
Steve Maviglio, a Davis spokesman.

The California Department of Water Resources made the earlier
emergency power purchases, including about 24,000 megawatt hours
of electricity on Thursday and Friday, Carl Torgersen, the
department's chief of utility operations, said Saturday. The
department acted under authority of emergency orders by U.S. Energy
Secretary Bill Richardson.
'(This) is something we've never done before,' Torgersen said.
'We're in a new era with deregulation.'

Wholesale power prices have increased fivefold in California
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On Thursday, power reserves in California dipped below 2 percent after a storm cut production at a key nuclear station.

The Independent System Operator, which manages most of the state's power grid, said electricity supplies had rebounded but were still tight.

Davis and Gov. John Kitzhaber of Oregon and Gary Locke of Washington said Friday that they would urge their residents to cut electricity demand 7 to 10 percent, try to reduce power use by their state governments by at least 10 percent, and look into joining forces to buy energy-efficient products for state and local agencies to get through the crisis.

Davis and California's two largest investor-owned utilities have pointed fingers at energy wholesalers, saying they have exacerbated the crisis by taking advantage of the tight supplies for their own profit.

Pacific Gas & Electric Co. and Southern California Edison, both electricity retailers, say they have lost more than $9 billion because of wholesale price increases and the state's 1996 deregulation law that froze rate hikes. The utilities, which won permission to raise rates, said the temporary increases approved by the state Public Utilities Commission weren't enough and have warned they could go bankrupt if something isn't done.

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Linked from Washington were Sperling, Treasury Secretary Lawrence Summers, James Hoekier of the Federal Energy Regulatory Commission, Deputy Energy Secretary T.J. Glaubert and officials from power companies.

White House says Calif must act on power crisis

WASHINGTON, Jan 13 (Reuters) - Clinton administration officials said late Saturday that a framework agreement to settle California's power crisis and stave off bankruptcy for two major utilities must be reached by state lawmakers and the governor by Tuesday.

Gene Sperling, director of the National Economic Council, said it was up to California Gov. Gray Davis and state lawmakers to finalize a solution to the crisis over the next two days.

"The governor laid out a framework for him and the legislative leadership to work on," Sperling told reporters after a seven-hour meeting with state officials and industry executives. "The issue is now for them to work out the proposal."

Treasury Secretary Lawrence Summers, who led the session, said the California officials recognized the need to reach a settlement by Tuesday. Clinton administration officials also said they would be willing to reconvene high-level talks if the California governor and state lawmakers could not work out a
Tuesday is the deadline because it will be the first working day after a three-day U.S. holiday weekend. Wall Street traders and rating agencies have been anxiously watching the crisis negotiations over the past five days to evaluate the financial standing of the nearly bankru

Power Woes
Feds, state and utilities meet to broker electricity deal

LOS ANGELES (AP) State, federal and utility company officials negotiated solutions to the electricity crisis for seven hours Saturday by a live satellite hookup linking both coasts. There were no decisions and negotiators were able only to schedule further talks on a plan that could make California a long-term electricity broker.

President Clinton's top economic adviser, Gene Sperling, said he believed there would be further talks in the next two days.

"I don't think any of us expect to get to the finish line tonight," Sperling said. "I think we can still make some more progress."

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"(This) is something we've never done before," Torgersten said.

"We're in a new era with deregulation."

Wholesale power prices have increased fivefold in California since last summer, accompanied by a series of drops in the state's power reserves in part because power plants are shut for maintenance.

On Thursday, power reserves in California dipped below 2 percent after a storm cut production at a key nuclear station.

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Word(s) found: Enron

-----Original Message-----
From: Posner, Steven
Sent: 1/12/2001 4:28:58 PM
Subject: wires - California Power Talks
Body:
Dow Jones International News Service via Dow Jones

WASHINGTON (Dow Jones)--The principal negotiators involved in White House-brokered talks to solve California's electricity crisis are slated to reconvene here Saturday afternoon, the U.S. Treasury Department confirmed Friday.

The resumption of high-level talks among top-ranking officials representing the Clinton administration, California, and utilities and power suppliers will take place at U.S. Department of Energy headquarters at 3:30 p.m. EST.

California Gov. Gray Davis and other key state regulators and lawmakers are to participate via a video conferencing link.

The pivotal negotiating session comes after two working groups involving lower-level officials have met since Wednesday in an effort to flesh out the details of a broad settlement package the principals discussed late Tuesday during a seven-hour meeting at the Treasury Department.
Knowledgeable sources described Treasury Secretary Lawrence Summers as taking an active role in attempting to forge an agreement during Tuesday's talks, which also featured Energy Secretary Bill Richardson, White House economic adviser Gene Sperling and Federal Energy Regulatory Commission Chairman James Hoecker.

Richardson, who is traveling this weekend in an effort to lobby oil-producing nations against a pending production cut, will not be attending Saturday's session.

The working group meetings will wrap up sometime Friday, the Treasury Department said.

The two groups have separately addressed the two primary features of the proposed settlement, which involve moving the state's financially ailing utilities out of volatile spot power markets and into fixed-price forward contracts while power producers agree to "forbearance" on the huge debt owed by the utilities.

The forbearance and contracts working groups have been meeting separately, and were to convene a joint session late Friday to compare notes before reporting back to the principal negotiators who will cut any final deal.

Those familiar with the talks have expressed a mix of pessimism and optimism that a final deal can be struck, given what they described as unrealistic bargaining demands by Gov. Davis.

He has firmly rejected retail rate increases and resisted demands for the state to guarantee the nearly $12 billion utilities have paid over the last eight months for wholesale power but been unable to pass along under state-mandated frozen retail rates.

Further complicating the talks have been demands by Davis that the proposed long-term power contracts be at rates far below the production costs of electricity generators.

But lately the pessimism has been tempered by signals that Davis may be persuaded to relent Saturday in his opposition to a state-backed securitization of the utilities' undercollections.

"Let's see their plan, and then we'll talk about that," Steve Maviglio, the governor's spokesman, said late Thursday.

Davis reportedly has been under increasing pressure from Wall Street and Clinton administration officials to reconsider his opposition to securitization.

Without a state credit guarantee, a work-out plan can't be struck, the utilities will enter bankruptcy and the state's power grid will collapse into blackouts, sources familiar with the talks warn.

The affected utilities are Southern California Edison Co., a unit of Edison International (EIX), and Pacific Gas & Electric Co., a unit of PG&E Corp. (PCG).

By Bryan Lee, Dow Jones Newswires, 202-862-6647, bryan.lee@dowjones.com

(END) Dow Jones Newswires 12-01-01

2100GMT

(AP-DJ-01-12-01 2100GMT)
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Calif power talks aim to reach solution on Saturday

WASHINGTON, Jan 12 (Reuters) - Treasury Secretary Lawrence Summers, other senior Clinton administration officials and top executives of electric power companies tentatively planned to meet on Saturday to finalize a fix for California's power mess, a source close to the negotiations said on Friday.

The high-level meeting was set to take place at the Energy Department at 3:30 p.m. EST (2030 GMT), with some California officials participating via teleconference, the source said.

The state narrowly averted rolling power blackouts on Thursday as already tight supplies of electricity fell to dangerously low levels because of a severe storm.

Friday marked the fourth day of negotiations among lower-level aides to map out detailed proposals for short- and long-term solutions to California's chronic electricity shortage and skyrocketing prices.

If the Friday talks failed to make as much progress as hoped, the Saturday session could be downgraded to another day of negotiations among lower-level officials on technical issues, according to another source.

Summers and Energy Secretary Bill Richardson launched the negotiations on Tuesday to prevent the bankruptcy of PG&E Corp <PCG.N> and Edison International <EIX.N>, which could ripple throughout the national economy.

Both utilities say they have run out of cash because of runaway prices wholesale power, which are now tenfold higher than one year ago. Under California's landmark 1996 deregulation law, the higher wholesale prices cannot be passed through to consumers.

The two utilities want a 90-day reprieve in repaying billions of dollars to out-of-state power generators, as well as the ability to sign long-term contracts to lock in lower prices.

{(washington.commodenergy.newsroom@reuters.com)}

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=DJ POWER POINTS: By The Numbers, Calif Pwr Deal Looks Good

Dow Jones International News Service via Dow Jones

By Mark Golden
A Dow Jones Newswires Column

NEW YORK (Dow Jones)--Grandstanding by negotiators in Washington, D.C., on the California electricity crisis indicates the sides are too far apart for an agreement this weekend, but the actual numbers involved raise the question: How can they not get this done?

California Gov. Gray Davis, on behalf of the utilities that contribute so generously to his campaign funds, is demanding three-year supply contracts at 5.5 cents a kilowatt-hour. "We've got to stop the hemorrhaging of utility cash, but I can't possibly have another rate increase or any state bailout," the governor is saying.

According to sources, U.S. Treasury Secretary Lawrence Summers and the
generating company chief executives looked at Davis with a "What are you smoking?" expression several times Tuesday night. The generators' stance is that the market price is 8.5 cents/kwh and only if the contracts run for eight years.

But that's all just negotiating position. The customers of Edison International's (EI) Southern California Edison currently pay the company 7.6 cents/kwh just for energy. That price includes last week's one-cent raise, but not other charges such as transmission and distribution.

Edison generates half the power it needs at a cost of about 3 cents/kwh. So, purchasing the other half at 5.5 cents/kwh would do a lot more than stop the hemorrhaging. If the cost of purchased power were 5.5 cents, Edison's average cost would be 4.3 cents, for which they are getting paid 7.6 cents. That 3.3 cents/kwh profit on the 83 billion kwh Edison sells a year comes to a whopping $2.7 billion annually. End of credit problem.

PG&E Corp.'s (PCG) situation is more difficult. Their customers pay less for electricity, and PG&E only generates a third of its own power, but they have lower generating costs than Edison. Bottom line: if PG&E could buy supplies at 5.5 cents/kwh, they would be left with 1.9 cents/kwh profit.

Unfortunately for the utilities, California independent generators, such as Reliant Energy (REI), NRG Energy (NRG), Dynegy (DYN), Southern Energy (SOE) and Duke Energy (DUK), can't get their prices down to 5.5 cents/kwh in California given the current market price of natural gas.

But they don't need anything close to 8.5 cents for eight years. The forward price for wholesale power in California for the balance of this year is 18 cents/kwh for the on-peak hours, which is what the utilities mostly need to buy. The on-peak price drops to 11 cents/kwh for a three-year contract because new generators and new gas supplies are expected to come on line. For an eight-year contract, the price drops to about 7.3 cents/kwh.

At 7.3 cents, PG&E would be heading to bankruptcy court. But the generators will get to sell PG&E some off-peak power, too, which brings the average price down a little further. If the governor guarantees really quick licensing for a couple of new power plants in northern California, the price comes down a lot.

What's more, to save deregulation in the U.S. the generators are willing to cut to the bone. The stocks of Dynegy, Enron Corp. (ENE), etc., have high price-to-earnings ratios because their earnings are expected to continue strong growth under electric deregulation. They are the emerging masters of a deregulated universe, but if deregulation were to throw PG&E and Edison into bankruptcy court, there wouldn't be any deregulated electric universe to master.

As one electricity trader put it: "They have got to get a deal done. If they don't get 'The California Energy Crisis' off of CNBC every 30 minutes, I'm going to be out of a job."

Generators' stock prices have been getting hammered since the first of the year due to several factors, such as profit-taking after a great 2000, according to Credit Suisse First Boston utility analyst Paul Patterson. Duke's stock has fallen to $66 from $85 since Dec. 29, for example.

Prices of generator stocks have come down hard, in part, because a California catastrophe would derail deregulation in many states and the forecasts for generators' earnings growth would be questioned, according to Solomon Smith Barney analyst Ray Niles.

That's the finances. The physical reality is that the western U.S. probably won't have enough electricity to meet demand for the rest of this year. Starting in February, if a deal is done, California utilities won't be the last in line to get their power, and the threat of blackouts will be spread out across the West.
Other than that, where's the rub? Under deregulation, consumers were supposed to get market rates in 2002. Based on the current forward market and the utilities' cost of retained generators, 7 cents/kwh for the rest of this year is a great deal. For 2002, it's fair, but for 2003-2008, it's terrible. The current purchase price for those years is about 5 cents. With utility-owned generation at 3 cents, consumers will be paying 7 cents/kwh when they should be paying 4 cents/kwh.

And the 2.4 cents/kwh competition transition charge (CTC) that was supposed to end in 2002 has to be extended several more years. The CTC is "non-bypassable," which means if you leave the local monopoly for an alternative supplier, you still have to send a couple of cents/kwh to the old utility.

Ratepayer groups got about 40 people to storm the PG&E corporate headquarters this week over the one cent rate increase. Another rate increase would cause riots and ballot initiatives, and cost Davis his job.

But can consumer groups get people out in the streets over a deal that's great now, but overcharges them starting in 2003? I doubt it.

Businesses such as Intel Corp. (INTC) will know they are getting the short end of the stick financially and that power in the western U.S. is still unreliable, so they will decide to build new factories in other states. That's how you bypass non-bypassable charges. It will be bad for the state's economic growth, but California needs to stop adding electricity demand.

The stars are aligned for a deal very soon: eight days left before the executive branch of the U.S. government changes from one that wants to help Davis to one that wants to hurt him; about the same amount of time is left before the utilities run out of cash; forward power prices have come down a lot in the past 30 days, but could easily start to rise again; merchant power company stock prices have been punished for two weeks, and their executives don't want to kill the golden goose.

How can they not get this done?

-By Mark Golden, Dow Jones Newswires; 201-939-4604; mark.golden@dowjones.com

(END) Dow Jones Newswires 12-01-01

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(AP-DJ-01-12-01 1800GMT)
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Wednesday, March 21, 2001

Word(s) found: Enron, Ken Lay

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Issue date:  March 21, 2001

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BUDGET
Stack Of Democratic Amendments Awaits FY02 Budget Markup

    Republicans and Democrats will offer their competing visions
for federal tax and spending policy at today's House Budget
Committee markup, as Budget Chairman Nussle presents a budget
plan that essentially mirrors the blueprint President Bush
recommended last month. Democrats will counter with a plan to
divide surpluses into thirds for tax cuts, debt relief and
spending priorities.

    In one significant departure from the president's budget,
Nussle's proposal will not assume the collection of revenues from
leases to drill for oil in the Arctic National Wildlife Refuge.
Nussle told reporters that that hot-button political issue "is a
battle we didn't want to fight in the budget." Nevertheless,
Nussle called Bush "a full, complete, total partner in this
budget."

    Nussle said his budget proposal includes reconciliation
instructions for four separate tax bills that equal $1.62
trillion over 10 years and for a $153 billion Medicare reform
bill. But he conceded that given the Senate's reluctance to
provide reconciliation instructions for more than one tax bill,
and none for Medicare, the matter would ultimately have to be
decided in conference.
Democrats responded Tuesday evening that Nussle's numbers do not add up, the GOP budget does nothing to extend the solvency of the Social Security and Medicare trust funds, and it is being marked up prematurely.

Speaking on the eve of his first markup as chairman, Nussle told reporters Tuesday that the FY02 budget resolution he will offer this morning would divide the $5.6 trillion total budget surplus that CBO projects over the next 10 years as follows:

Set aside the entire $2.49 trillion in Social Security trust fund surpluses, allocating $2 trillion over 10 years to paying down the publicly held debt and reserving the $491 billion remainder for Social Security reform.

Provide $1.62 trillion for tax cuts. Any increase in the on-budget surplus that CBO projects in its midsession review would be reserved for further tax cuts or debt reduction, although Nussle does not expect the so-called "bump-up" to be significant.

Use $402 billion for debt service.

Save $503 billion in a general contingency reserve to defray the cost of as-yet unspecified needs, such as additional spending called for in Defense Secretary Rumsfeld's strategic review or increased assistance to farmers.

Set aside the entire $393 billion Medicare Part A trust fund surplus for Medicare reform and creation of a prescription-drug benefit. The amount requested in Bush's budget, $153 billion, would specifically be dedicated to pay for Bush's prescription-drug plan and the remainder placed in a separate reserve fund for further modernization legislation.

Commit $121 billion to fund other domestic spending initiatives.

For FY02, the budget allocates $661 billion in discretionary budget authority. Of that, $324.3 billion is for defense spending.

Nussle said money from the contingency fund could be tapped only via a presidential request and reports from the committees of jurisdiction outlining why the funds were needed and how they would be spent.

Democrats criticized the swiftness of the markup--before Congress has either the more detailed budget Bush will send to Capitol Hill next month or detailed revenue estimates out of the Joint Committee on Taxation.

"Frankly, this budget is on too fast a track," Budget Committee ranking member John Spratt, D-S.C., told reporters, even as he praised Nussle's cooperation with Democrats.

"Their budget," Spratt added, "is fixated on tax reductions...and leaves no room for other priorities."

Rep. James Moran, D-Va., a senior Budget Committee Democrat, added to the Democrats' criticism.

"We want tax cuts as much as Republicans--but tax cuts that are affordable, that are not going to have to be paid for by our children," Moran said.

Moran plans to offer an amendment calling for a legislative trigger to link the phase-in of tax cuts to future budget surpluses.

To illustrate Democratic budget priorities, Spratt and his colleagues have filed 18 amendments they may offer today, in addition to a Democratic alternative based on their proposal to divide the surplus into thirds.

Among their other amendments are provisions to take the Medicare Part A trust fund off budget and require that Social Security and Medicare surpluses be used exclusively to pay benefits.

Democratic amendments also would reduce the size of the tax cut to create a voluntary, universal Medicare prescription-drug benefit; set up a reserve fund of $9 billion in FY02 and $4 billion a year after that to provide supplemental income assistance to farmers; and create a reserve fund to increase
veterans' programs by $1.2 billion in FY02, providing $3.8 billion in FY02 and $43.8 billion over 10 years. -- By Lisa Caruso

POLITICS
Parties Deadlocked Over Senate Ratios

Senate Republicans and Democrats remain deadlocked over party representation on House-Senate conference committees, with the standoff threatening to prevent Republicans from moving any part of President Bush's agenda except tax and budget issues until it is resolved.

"Neither leader at the moment is even hinting that they will budge," said Sen. Robert Bennett, R-Utah.

No significant negotiations are taking place on the issue, sources said.

Senate Majority Leader Lott insists that Republicans need to maintain a one-vote party edge when conferences meet on legislation. But Minority Leader Daschle has called for equal representation to reflect the Senate's 50-50 split.

The two leaders set aside the contentious issue late last year, when they negotiated a broad, power-sharing arrangement that provided for equal representation on Senate committees.

With the passage in both chambers of bankruptcy reform legislation, the issue has re-emerged, and both sides remain entrenched.

"The one thing the majority cannot give up is having a majority on each committee," said Judiciary Chairman Hatch, who managed the bankruptcy bill on the Senate floor. "If you don't have that, you don't have anything."

Republicans fear that without a one-vote advantage, they might not be able to get legislation out of conference.

"You give the Democrats a veto over anything you can do," said a GOP leadership aide. "They literally have a veto unless we meet their price 100 percent."

The aide noted that conference committees have no mechanism for discharging legislation if conferees cannot reach agreement. Republicans negotiated a provision in the power-sharing arrangement that allows legislation to come to the floor even if committee members are deadlocked.

By contrast, on conference committees, "You are literally over a barrel," said the aide.

But as in the earlier negotiations, Democrats maintain some leverage, since Republicans are seeking to move the president's agenda.

Hatch said the issue has led to a "quagmire," but insisted that Republicans need to stand firm on the issue. Asked whether the standoff could delay major legislation over a period of weeks or months, Hatch said, "It may be that that's the way life has to be."

Republicans would still be able to move budget and tax reconciliation legislation, because budget law prevents filibusters on the budget resolution and on reconciliation. So Republicans would need only a 51-vote majority to appoint conferees on the measures, presumably with Vice President Cheney's vote.

Meanwhile, Republicans are hoping to avoid the issue as it relates to bankruptcy by having the House take up the Senate-passed bill.

Lott said House and Senate staff members were negotiating differences between the two versions, and the current plan was for the House to take up the Senate bill and amend it.

"The modification will basically take the bill back pretty close to where it was last year," he said. He said that when the bill comes back, "the Senate might be able to move it on down."

But Lott noted that Democrats have employed delaying tactics
against the bill, which would still be subject to amendment.
He acknowledged major differences between the two versions on
issues like the homestead exemption for bankruptcy filers.
"We don't want that one issue to cause this entire bankruptcy
bill to not go forward," he said.

Majority Leader Armenty said Tuesday evening that the House
would "probably" follow the approach that Lott outlined. As for
the Senate homestead language, he said, "I don't think we can
come to our floor with their language." -- By Geoff Earle

CAMPAIGN FINANCE
Campaign Finance Reform Debate Facing Test In Hagel Proposal
Reaction by the bill's sponsors to Senate approval Tuesday of
the first amendment to the campaign finance reform legislation
was subdued. But Democratic leaders took a more aggressive
stance.

The amendment, sponsored by Sens. Pete Domenici, D-N.M. and
Mike DeWine, R-Ohio and approved by a 70-30 vote, would
proportionally raise hard-dollar contribution limits for anyone
challenging a self-funding candidate.
"I'm not thrilled about having this in the bill," said Sen.
Russell Feingold, D-Wis., co-author of the so-called McCain-
Feingold bill. "But I'm glad we have disposed of the issue."

Similarly, Sen. John McCain, R-Ariz., said that the amendment
was an expected part of the process, and pivoted to focus on the
"central" issues of the legislation: soft money, independent
expenditures and severability.

Senate Minority Leader Daschle called the amendment an
"incumbent protection act."
"This is no longer McCain-Feingold," Daschle said. "This is
McCain-Feingold-Domenici."

But Daschle said that the addition of the Domenici amendment
alone would not cause him to oppose the larger bill.

Sen. Chuck Hagel, R-Nebr., one of only three Republicans to
vote against the amendment, said the bill is "blatantly
unconstitutional."

As both sides reacted to the amendment's passage, Hagel was
working to build momentum for his rival campaign finance reform
legislation.

At a news conference, Hagel and several cosponsors from both
sides of the aisle promoted the bill, which would cap soft-money
contributions at $60,000 and triple the current $1,000 hard-
dollar contribution limit.

Sen. John Breaux, D-La., pointed out that more than 100
"single-issue interest groups" would still be able to run ads if
McCain-Feingold passed, adding that the legislation would create
a "terribly unlevel playing field."

Hagel would not discuss when his proposal would be brought to
the floor as an amendment to McCain-Feingold or whether it would
be presented as a whole or separated into pieces when introduced.

McCain-Feingold supporters downplayed the viability of the
Hagel's proposal.

"The legalization of soft money will not pass the Senate,"
said McCain.

Feingold said that approval of the Hagel amendment would "put
a stamp of approval on soft money once and for all."

Two other Republican amendments were defeated Tuesday. The
amendments by Sens. Robert Bennett, R-Utah, and Gordon Smith, R-
Ore., dealt with use of soft money by labor and business. -- By
Chris Cillizza, with Charlie Mitchell and Will Conley

HEALTH
Senators Seek To Use Review Act On Family Planning Rule
Just weeks after congressional Republicans used the Congressional Review Act to cancel Clinton administration regulations on ergonomics, a bipartisan group of senators is planning to return the favor by forcing the Senate to vote on whether to overturn President Bush's reimposition of the "Mexico City" family planning policy.

Sens. Barbara Boxer, D-Calif., and Harry Reid, D-Nev.,--along with Republicans Olympia Snowe and Susan Collins of Maine, James Jeffords of Vermont, Arlen Specter of Pennsylvania and Lincoln Chafee of Rhode Island--Wednesday introduced a formal "resolution of disapproval" of the rule published Feb. 15.

At a news conference, they also announced they have the 30 signatures needed to force a 10-hour floor debate on their resolution.

"This has nothing to do with so-called 'ergo payback,'" said Reid. "This will stand or fall on its own merits." But Boxer conceded that the group "saw [this process] work in another area, and we hope to use it to our advantage here."

On his first business day in office--the anniversary of the landmark abortion ruling, Roe vs. Wade--Bush ordered a return to the policy in effect from 1984-93. It forbade U.S. funding of international family planning organizations that use their own funds to perform, counsel or advocate abortions.

The move pleased abortion opponents, who claim that although no U.S. funds were used to pay for abortions, such funds were subsidizing organizations like the International Planned Parenthood Federation.

But the action angered not only abortion-rights supporters, but also legislators like Reid--who opposes abortion but supports family planning.

The Senate probably has the votes for the resolution--even in the last Congress, a more anti-abortion Senate resisted House efforts to reimpose the policy in legislation. The situation in the House remains unclear. In that chamber, said Rep. Nita Lowey, D-N.Y., the only way to force the measure to the floor would be by discharge petition.

Lowey said she hopes if the resolution passes the Senate--Boxer would not set a date, but said to expect a vote by early June--a bipartisan group of House members might be able to convince Speaker Hastert to allow a vote there.

And despite the fact that the resolution would overturn Bush's action, backers said they hope that he might not veto the measure--should it reach his desk. "I hope that while we are working on this, he might have second thoughts," said Boxer.

By Julie Rohner

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TAXES
Gramm, Miller Developing A 'Midcourse' Tax Cut Review

Sens. Phil Gramm, R-Texas, and Zell Miller, D-Ga., said Tuesday they are working on a potential tax-cut compromise that would provide Congress with a mechanism to use a "midcourse correction" to review the budget and tax outlook in future years.

Gramm said the mechanism would provide for an expedited vote in the Senate that would be based on congressional discretion to evaluate tax and spending proposals, depending on the budget outlook.

Thus, "you're not locked into" removing scheduled tax cuts, he said.

Gramm said the idea, which is still in development, compares favorably to trigger proposals, proposed by several Republican and Democratic centrists, that would tie tax cuts to projected surpluses. Gramm said his mechanism would not require the cancellation of tax cuts, as would triggers, but instead would leave decisions to legislators.

"I'm not in favor and not going to support some straightjacket
Gramm said his proposal would set a point in time—perhaps three years into the tax cut—when the expedited procedures would take effect.

A spokesman said Gramm had talked to about 30 colleagues about the idea and noted that Majority Leader Lott had spoken favorably of it. Miller acknowledged that work is being done on the proposal but declined to comment further.

"I think people feel some urgency," said Gramm. "We have to deal with the budget."

Gramm's proposal comes as GOP leaders are trying to assemble the votes to pass a budget resolution, which is scheduled to come straight to the floor after debate concludes on campaign finance reform next week.

"We're hopeful to get 51 votes," said Senate GOP Conference Chairman Rick Santorum of Pennsylvania. "We knew it was going to be very difficult."

Santorum said leaders were holding discussions to line up support for the budget. "We just want to hear their concerns" and "find out what issues trouble them," Santorum said.

Gramm Tuesday dismissed an idea by Minority Leader Daschle that the Senate consider a proposal to lower only the lowest income-tax rate.

"Why would you want to do one bracket instead of the rate cut for everybody?" he asked.

Lott left open the option for the Senate to take up the House-passed tax-rate bill before it acts on President Bush's entire tax cut, if a unanimous consent agreement can be reached.

But Sen. John Breaux, D-La., said Tuesday that it would be impossible to reach such an agreement on any element of the Bush plan.

In the House, after huddling with GOP leaders Tuesday, House Ways and Means Chairman Thomas said he hoped to finalize late Tuesday the content of the next package of tax cuts to move through his committee.

Thomas said he was reviewing data and trying to determine which pieces would go into the next package, but insisted he would not make an announcement before today, saying, "Once it's done, it's done."

Fending completion of the next tax cut package, Thomas added that it was possible he could move up his committee's scheduled Friday markup to Thursday.

At the White House, President Bush—charged by Democrats with abetting the economy's decline by stressing weakness while promoting his tax cut—sought instead Tuesday to emphasize the economy's strengths.

Bush suggested that "the health of our economy is going to be very strong" in the long term. "People have got to know that I have got great faith in the American economy," he told reporters.

Bush, who has repeatedly indicated the economy is "sputtering," voiced a milder tone.

"We've got some problems, some short-term problems, and if Congress were to act quickly on my tax stimulus package, it would make our recovery quicker," he said.

Meanwhile, a private sector group allied with Bush began running radio advertisements Tuesday in South Dakota. The ads are designed to prod Sen. Tim Johnson, D-S.D., to back Bush's tax cut proposal.

The Issues Management Center, which has said it plans to spend $5 million on advertising and other activities, recently began aiming its pro-tax cut campaign at Democratic senators up for reelection next year in states that voted for Bush.

The advertisements feature commentary by former presidential candidate Steve Forbes and sound clips from a speech by former President Kennedy, promoting his own tax cut nearly 40 years ago.

The IMC, run by GOP operatives Scott Reed, Bill Dal Col and
Greg Mueller, was formed to promote the Bush agenda. It has already run similar ads targeting Sen. Mary Landrieu, D-La., in Louisiana.

The ads targeting Johnson will run at least a week, according to an IMC official, and will be broadcast throughout the day on major radio stations in the state.

Similar radio spots aimed at Sen. Max Cleland, D-Ga., may begin next week. The group also is contemplating television ads.

Despite its huge war chest, the IMC so far has done only a week of ads on taxes in Louisiana and another spot in New York promoting the nomination of Attorney General Ashcroft.

"We have a lot of time," the IMC official said, noting that Senate consideration of the Bush tax cut "could take months." - By Geoff Earle and Keith Koffler, with Mark Wegner contributing

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TRADE

Jordan Trade Agreement Provisions Draw Ire Of U.S. Chamber

The U.S. Chamber of Commerce will actively oppose ratification of a trade agreement with Jordan because of its labor and environmental provisions, the organization's president told the Senate Finance Committee Tuesday.

"We will use the resources of the Chamber to oppose the Jordan Free Trade Agreement because of the extraneous issues in it," Thomas Donohue, the Chamber president, said.

He referred to the agreement as "a cute little effort" to tie national security issues to domestic political interests and warned, "It is not going to fly."

Some key congressional Democrats have hailed the Jordan agreement as a possible template for future trade agreements because it would require both countries to uphold their own labor and environmental laws.

But witnesses told the panel Tuesday that the Jordan deal would be of limited use in writing trade agreements with other countries or in drafting a bill to renew trade promotion authority, or fast track.

Michael Smith, who served as a deputy U.S. trade representative during the Reagan administration and who staunchly opposes inclusion of labor and environmental standards in trade deals, said the provisions in the Jordan agreement are far too vague to be of any use in writing other trade pacts. Finance Chairman Grassley said he shared that concern.

Even backers of the Jordan deal, including former U.S. Trade Representative Barshefsky, who helped negotiate it, agreed that a "cookie cutter" approach would not work.

Just the same, Barshefsky Tuesday urged speedy approval of the Jordan pact. To that end, she and other witnesses came out strongly against a proposal by Trade Representative Zoellick to bundle the Jordan agreement with other items in an omnibus bill that would include trade promotion authority.

"Nations are not fungible," she said. "What may work for one nation may not work for another nation."

Former National Security Adviser Samuel (Sandy) Berger implored the committee not to delay the Jordan agreement and use it "as a canvas where we act out other issues."

Looking to Jordan's efforts to reform its economy and the importance of that effort to Middle East stability, he said, "We are playing with real bullets here."

AFL-CIO President John Sweeney also called for swift consideration of the Jordan deal, saying "it could not be more reasonable or moderate." But Sweeney referred to the pact only as a "significant first step" and said his organization does not see it as a "template for fast track" because debate would involve an "entirely different set of issues."

Sen. John Kerry, D-Mass., said bundling trade bills was "a very bad idea." He said the Bush administration and other
opponents of the Jordan deal are "misreading the politics" of global trade.

"Why can't the Bush administration accept this freebie from the previous administration unless it is trapped in an ideological box?" he asked. "We are begging for a fight we do not even have to have."

He suggested approving the Jordan agreement quickly and asked, "What harm is there in putting it to the test?" Grassley responded that Kerry "had a point" about using Jordan as a "laboratory," but he cautioned about seeing it as the standard for trade policy. -- By Stephen Norton

TRANSPORTATION

Dorgan Bill Seeks Two-Year Moratorium On Airline Mergers


Dorgan conceded that he is not likely to find "an avalanche of support" for the legislation from either congressional Republicans or President Bush. "I don't think this president is going to take on antitrust issues, merger issues," Dorgan said. He added, "This administration is pretty close to corporate America."

Dorgan acknowledged his bill would effectively nullify American Airlines' pending acquisition of TWA. Critics have argued that merger would accelerate movement toward control of the aviation industry by airline giants United, American and Delta.

Dorgan said he could have included an exemption for the TWA-American deal in his bill, but he decided that "good public policy" dictated otherwise.

Dorgan's proposal comes in the wake of the Senate Commerce Committee's narrow approval last week of legislation designed to foster more competition among airlines. However, it had been stripped of a proposal intended to slow major airline mergers.

Dorgan said several committee Democrats privately admitted after the hearing to having serious concerns about airline industry consolidation. Nevertheless, "I'm not unmindful of the fact that some key people [will] object to anything" that might keep the TWA-American transaction from being completed, he said.

The Commerce Committee, of which Dorgan is a member, also last week approved by voice vote a bill designed to strengthen the government's hand in disciplining airlines that mistreat passengers.

Senate Majority Leader Lott told CongressDaily Tuesday that he might try to bring that passengers' rights legislation to the floor next week, or whenever the chamber concludes debate on campaign finance reform legislation.

Dorgan hinted that he might seek to attach a version of his airline-merger moratorium legislation to that bill. "Service and pricing will not improve until there is real competition," Dorgan said. -- By Pamela Barnett

COLUMN: OUTSIDE INFLUENCES

Money For Nothing?

Money changes everything, or so the adage goes. But as the Senate debates legislation to drastically curb the amount of money in politics, it is worth asking: Does it really? An Outside Influences review of the top campaign contributors in the 1999-2000 election cycle finds that many of the most generous corporations actually scored few legislative victories.

The regional Bell operating companies, for example, shoveled more than $5 million in unlimited "soft money" contributions to
the political parties in the last two years, according to the
nonpartisan FECInfo. But the Baby Bells' top priority--broadband
legislation--was never even brought up for a vote in a
single congressional committee. Another Bell priority, a bill to
end so-called reciprocal compensation payments, was buried by the
very same House Republicans who were collecting all the corporate
Bell checks.

One of the Baby Bells, SBC Communications, was the fourth
largest soft money contributor, with $1.78 million, while Bell
sibling Verizon Communications ranked eighth with $1.46 million.
BellSouth and Qwest Communications kicked in another $940,000 and
$830,000, respectively. To be sure, AT&T--the leading soft money
contributor in 1999-2000--helped block the Baby Bells' pet bills.

But even the former Ma Bell, which rang up $3.6 million in
soft money during the cycle, could not buy the support it needed
to accomplish its most important goal of the session:
Congressional leaders disconnected a last-minute bid by AT&T to
tuck a provision into a must-pass appropriations bill to lift
federal limits on the size of cable companies. A federal court
was more receptive, however, striking down the cable limitation
earlier this month.

Even when the entire Bell family partnered with long-distance
companies MCI, WorldCom and Sprint in an attempt to eliminate a
century-old tax on phone service, the combined $10 million in
soft money contributions could not purchase an unblemished
victory. Congress passed the bill, but former President Clinton
refused to sign it.

The telecommunications giants are not alone. Other major soft
money contributors of the 1999-2000 election cycle finished the
106th Congress without a clear legislative victory.

Everyone knows how Microsoft ($1.67 million in soft money)
fared. Enron (No. 13 with $1.16 million) and its CEO Ken Lay
($325,000) could not spark action on a bill to restructure the
nation's electricity markets. And Lockheed Martin Corp. (No. 15
with $1.15 million) suffered several high-profile setbacks.

Still, several of the largest soft money givers scored subtle
victories by running out the clock on their opponents' legislative priorities. Freddie Mac ($2.4 million) slammed the
door on legislation that would have welcomed new competition into
its neighborhood.

Other generous soft money givers that did not score direct
legislative wins on Capitol Hill earned important victories from
federal agencies during the cycle. Federal Express ($1.46
million) and UPS ($1.33 million) each received important landing
rights from the FAA. Meanwhile, AT&T, Verizon, SBC and No. 11
Citicorp ($1.29 million) secured federal approval for huge
corporate mergers.

Still other companies that gave handsomely could be preparing
for upcoming legislative battles on Capitol Hill, according to
campaign finance experts. "They may not have anything specific
now but they may be laying the groundwork for a receptive
Congress or administration in the future," said Kent Cooper, who
runs FECInfo. "You need to make your friends before you need
them."

Lobbyists for the top corporate contributors say the donations
are not intended to guarantee approval of their top congressional
priorities. "It's not as simple as: 'Put money in here, output
legislation here,'" observed one industry lobbyist.

As evidence, the lobbyist pointed to the phone industry's
partnership to end the telephone tax. Considering the soft money
spent by the industry in support of its allies, the lobbyist
said, "that should have been a slam dunk." -- By Brody Mullins

LABOR
Legislators Push New Ergonomics Action As Bush Signs Repeal
President Bush Tuesday signed a bill into law terminating controversial Clinton administration ergonomics regulations—drawing praise from business groups but condemnation from labor.

On Capitol Hill, advocates on both sides said the issue could be revisited.

"Musculoskeletal injuries in the workplace are a very serious issue, but there were significant problems with this regulation," said House Education and the Workforce Chairman Boehner.

Business interests had fought hard to kill the regulation, saying it would cost them billions of dollars and override voluntary programs already in place.

Labor groups supported the Clinton rule, which was overturned earlier this month through the first successful use of the Congressional Review Act.

Sen. John Breaux, D-La., who voted with five other Senate Democrats to void the rule, has said he would push to introduce a bill directing the Labor Department to develop a new rule.

In a statement released by the White House, Bush urged an alternative to the scuttled regulation.

Bush said that he was signing the resolution because "in exchange for uncertain benefits, the ergonomics rule would have cost both large and small employers billions of dollars and presented employers with overwhelming challenges."

ENERGY

Tausin, Barton Seek Ways To Ease Calif. Energy Crisis

Key Republicans on the House Energy and Commerce Committee signaled willingness Tuesday to move legislation soon to help aid consumers in California shocked by a mounting electricity crisis.

However, the Republicans said they would not introduce any legislation unless they were convinced that congressional action would do more good than harm.

House Energy and Commerce Chairman Tausin and Energy and Air Quality Subcommittee Chairman Joe Barton, R-Texas, said they would take a look at near-term solutions to the California crisis at a hearing on the issue.

Barton said he would make a decision by the end of the week. If he does introduce a bill, it would be a departure from many members of his party who have urged that California take care of its own problems.

POLITICS

Martinez: Congress Should OK Larger Rental Housing Loans

HUD Secretary Martinez said Tuesday the government should guarantee larger loans for companies that want to build rental housing, while predicting the change would generate an additional 3,000 apartments, the Associated Press reported.

HUD wants Congress to increase the limit on Federal Housing Administration loans by 25 percent, a proposal that was included in President Bush's budget plan.

The department predicted that the change would allow for an extra $300 million in construction of about 3,000 additional units in 2002. It would not affect the federal budget because FHA is self-funded by premiums paid by borrowers, HUD said.

Under law, HUD can only provide FHA insurance of about $40,248 per two-bedroom apartment, a figure that varies by region.

Since the limit on loan size was last increased in 1992, construction costs in some areas have risen by 25 percent or more, HUD said—arguing that these increasing costs, coupled with the static loan limits, have driven developers to more lucrative projects.

HEALTH
HIAA Official Selected As Health Staff Director

Dean Rosen, a senior vice president and general counsel of the Health Insurance Association of America, has been named staff director of the Senate Health, Education, Labor and Pensions Public Health Subcommittee.

Senate Public Health Subcommittee Chairman Bill Frist, R-Tenn., named Medicare, prescription drugs and patient protections, along with inadequate insurance coverage, as issues Rosen would help deal with.

Before working at HIAA, Rosen was majority counsel for healthcare issues for the House Ways and Means Committee. Rosen replaces Anne Phelps, who now works for the White House.

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POLITICS

Bush Nominates Two Trade Deputies

President Bush Tuesday announced his intention to nominate Peter Allegeir and Linnet Deily for the posts of deputy United States trade representative with ambassadorial authority.

Allegeir currently works in the Bush White House, serving as senior director for international affairs at the National Economic Council. Before joining the NEC, he had served in the Office of the U.S. Trade Representative since 1981, working in the Western Hemisphere and the Western European and the Mediterranean divisions.

Deily is presently vice chairman in the office of the president of the Charles Schwab Corp.

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FLOOR SCHEDULE

*S&ENATE*
Convenes at 9:30 a.m. to resume consideration of campaign finance reform legislation. Votes are possible throughout the day.

House
Convenes at 10 a.m. to consider five bills under suspension of the rules.

TODAY

=SENATE COMMITTEES=

APPROPRIATIONS

NATO Issues
Defense Subcommittee hearing on FY02 appropriations for NATO Issues. Witness: General Joseph Ralston, Supreme Allied Commander Europe. 192 DSOb. 10 a.m. Contact: 202-224-3471. (Revised.)

ARMED SERVICES

Defense Budget
Readiness and Management Support Subcommittee hearings on proposed legislation authorizing funds for FY02. 232-A RSOB. 9:30 a.m. Contact: 202-224-3871.

COMMERCE

Rail Transportation
Surface Transportation and Merchant Marine Subcommittee oversight hearing on the Surface Transportation Board. 253 RSOB. 9:30 a.m. Contact: 202-224-5115.

ENERGY AND NATURAL RESOURCES

Energy Overview
Full committee oversight hearing to review energy trends and recent changes in energy markets. 106 DSOb. 9:30 a.m. Contact: 202-224-4971. (Revised.)

Klamath Project
Water and Power Subcommittee oversight hearing on the Klamath
ENVIRONMENT AND PUBLIC WORKS
Clean Air/Energy
Clean Air, Wetlands, Private Property, and Nuclear Safety
Subcommittee hearing on harmonizing the Clean Air Act with the
nation's energy policy. 406 DSOb. 9 a.m. Contact: 202-224-6176.

FOREIGN RELATIONS
Green Nomination
Full committee hearing on the nomination of Grant Green Jr. of
Virginia to be undersecretary of State for management. 419 DSOb.
2 p.m. Contact: 202-224-4651.

JUDICIARY
Aviation Competition
Antitrust, Business Rights and Competition Subcommittee hearing
to examine aviation competition and issues involving
concentration at high-density airports. 226 DSOb. 10 a.m.
Contact: 202-224-5225. (Revised.)

INTELLIGENCE
Intelligence
Full committee hearing on intelligence matters. 219 HSOb. 3 p.m.
Contact: 202-224-1700. (Closed.)

 HOUSE COMMITTEES

AGRICULTURE
Rice Industry
Full committee hearing to review federal farm commodity programs
with the rice industry. 1300 LHOb. 10 a.m. Contact: 202-225-2171.
(Revised.)

APPROPRIATIONS
CFTC Oversight
Agriculture Subcommittee oversight hearing on the Commodity
Futures Trading Commission. 2362-B RHOB. 9:30 a.m. Contact: 202-
225-2771.

JUDICIARY
Commerce, Justice, State and Judiciary Subcommittee hearing on
the Administrative Office of the U.S. Courts; judicial offices.
H-309 Capitol. 10 a.m. Contact: 202-225-2771.
Defense Readiness
Defense Subcommittee hearing on military readiness. H-140
Capitol. 9:30 a.m. Contact: 202-225-2771. (Revised/Closed.)
Hurricane Funds
Foreign Operations, Export Financing and Related Programs
Subcommittee hearing on implementation of the Hurricane Mitch
supplemental appropriation, involving the GAO and the inspector
general of the Agency for International Development. H-144,
Capitol. 10 a.m. Contact: 202-225-2771.
FY02 Appropriations
Interior Subcommittee oversight hearing on the Office of Special
Trustee for American Indians, trust reform. B-308 RHOB. 10 a.m.
Contact: 202-225-2771. (Revised.)
FY02 Appropriations
Labor, HHS Subcommittee hearing on FY02 appropriations under its
jurisdiction. 2358 RHOB. 10 a.m. Contact: 202-225-2771.
FY02 Appropriations
Military Construction Subcommittee hearing on FY02 appropriations
for Family Housing Privatization. B300 RHOB. 9:30 a.m. Contact:
202-225-2771.
Transportation Appropriations
Transportation Subcommittee hearing on FY02 appropriations for
AMTRAK. (Rescheduled from Feb. 28.) 2358 RHOB. 10 a.m. Contact: 202-225-2771.

Treasury Appropriations
Treasury-Postal Subcommittee hearing on FY02 appropriations for treasury inspector general and treasury inspector general for tax administration. 2359 RHOB. 10 a.m. Contact: 202-225-2771.
FY02 Appropriations/VA-HUD
VA-HUD-Independent Subcommittee hearing on FY02 appropriations. H-143, Capitol. 9 a.m. Contact: 202-225-2771.
VA-HUD-Independent Subcommittee hearing on FY02 appropriations. H-143, Capitol. 1 p.m. Contact: 202-225-2771.

ARMED SERVICES
National Security

BUDGET
Budget
Full committee markup of the FY02 budget resolution. 210 CHOB. 10 a.m. Contact: 202-226-7270.
Education and the Workforce
Committee Organization
Full committee markup of the committee oversight plan and amendment to the committee rules. 2175 RHOB. 10:30 a.m. Contact: 202-225-4527.
Energy and Commerce
Airline Mergers
E-Mail
Telecommunications and the Internet Subcommittee markup on H.R.718, the Unsolicited Commercial Electronic Mail Act of 2001. NOTE: This markup may extend to subsequent days as necessary. 2123 RHOB. 10 a.m. Contact: 202-225-2927.
Financial Services
Business Checking
Financial Institutions and Consumer Credit Subcommittee markup of H.R.974, the Small Business Interest Checking Act, and H.R.1009, the Business Checking Freedom Act. 2128 RHOB. 2 p.m. Contact: 202-225-7502.

GOVERNMENT REFORM
Pennsylvania Ave.
District of Columbia Subcommittee hearing on the future of Pennsylvania Ave. in front of the White House. Witnesses: DC Mayor Anthony Williams, DC Council Chairman Linda Cropp; John Parsons, associate regional director of lands, resources and planning, National Park Service. 2154 RHOB. 10 a.m. Contact: 202-225-5074.
Pending Business
Government Efficiency, Financial Management and Intergovernmental Relations Subcommittee markup of pending matters. 2247 RHOB. 10 a.m. Contact: 202-225-5074. (Revised.)

INTERNATIONAL RELATIONS
Full committee markup of the Foreign Relations Authorization Act for FY02 and FY03. 2172 RHOB. 10 a.m. Contact: 202-225-5021.
JUDICIARY
Unborn Victims
Juvenile Offenders

SCIENCE
Earthquakes
Research Subcommittee hearing on life in the subduction zone. 2318 RHOB. 2 p.m. Contact: 202-225-6371.

INTELLIGENCE
Pending Matters
Full committee briefing on pending intelligence matters. H-405 Capitol. 2 p.m. Contact: 202-225-4121. (New/Closed.)

TRANSPORTATION AND INFRASTRUCTURE
Highway Outlook
Highways and Transit Subcommittee organizational meeting and hearing on the outlook for the nation's transit systems. 2167 RHOB. 10 a.m. Contact: 202-225-9446.

VETERANS' AFFAIRS
Pending Legislation

WAYS AND MEANS
Tax Relief
Full committee hearing on the president's tax relief provisions that affect individuals. Witnesses: Rep. Gerald Weller, R-Ill.; Sen. Kay Bailey Hutchison, R-Texas; Bruce Bartlett, senior fellow, National Center for Policy Analysis; Charles Donovan, executive vice president, Family Research Council; Wendell Primus, director, income security, Center on Budget and Policy Priorities. 1100 LHOB. 10 a.m. Contact: 202-225-3625. (Revised.)

On the Hill Today
Campaign Finance

DEFENSE

Democrats
Senate Democrats dugout news conference. Participant: Senate Minority Leader Daschle. S-224, Capitol. 10:45 a.m. Contact: 202-224-5556. (New.)

Environment

Water Environment Federation and American Society of Civil Engineers Environmental and Water Resources Institute Washington briefing. Participants: 7:30 a.m., Rep. John Duncan, R-Tenn.,
keynote speaker, Capitol Contacts Breakfast; noon, Capitol Hill visits. Hotel Washington, 515 15th St., NW. Contact: 703-684-2400.

FOREIGN AFFAIRS
Senate Caucus on International Narcotics Control. Hearing to examine the use and effects of the drug Ecstasy. 216 HOB. 9:30 a.m. Contact: 202-224-9032. (New.)

HEALTH
House Leadership
House GOP Conference. Closed meeting on party issues. Stakeout, Center Steps Hallway. HC-5, Capitol. 9 a.m. Contact: 202-225-5107. (New.)

SOCIAL ISSUES

TAXES
News conference to introduce tax components of the faith-based initiatives plan. Participants: Sens. Rick Santorum, R-Pa., and Joseph Lieberman, D-Conn. Senate Radio/TV Gallery, Capitol. 11 a.m. Contact: Robert Traynham, 202-224-0610. (New.)

TRANSPORTATION
News conference to introduce legislation, the Railroad Retirement and Survivors' Improvement Act. Participants: House Resources Chairman Young, Reps. James Oberstar, D-Minn., Jack Quinn, R-
N.Y.; and Bob Clement, D-Tenn. 2253 RHOB. 2:30 p.m. Contact: Steve Hansen, 202-225-7749 or Jim Berard, 202-225-6260. (New.)

TELECOMMUNICATIONS

OFF THE HILL TODAY
Campaign Finance
American League of Lobbyists address by Sen. Chuck Hagel, R-Neib. Washington Court Hotel, 525 New Jersey Ave., NW. 8:30 a.m. Contact: Patti Jo Baber, 703-960-3011. (New.)

FOREIGN AFFAIRS

Immigration

SOCIAL ISSUES
National Assn. of Housing and Redevelopment Officials legislative conference. Participant: HUD Secretary Mel Martinez, J.W. Marriott Hotel, 1331 Pennsylvania Ave., NW. 8 a.m. Contact: 202-289-3500. (Revised.)


TRANSPORTATION

THURSDAY=

AGRICULTURE
Food Oversight
Full committee oversight hearing of the Food Safety and Inspection Service. 216 HOB. 9 a.m. Contact: 202-224-2035.

ARMED SERVICES
Defense Funding
Full committee hearing on proposed legislation authorizing funds for FY02 for the Defense Department and the future years Defense program, focusing on military strategy and operational requirements. NOTE: This hearing will be followed by closed
hearings in 222 RSOB. 106 DSOB. 9:30 a.m. Contact: 202-224-3871.

BANKING
Exports
Full committee markup of S.149, the Export Administration Act of 2001. 538 DSOB. 10 a.m. Contact: 202-224-7391.

BUDGET
Federal Debt
Full committee hearing on debt management. Witness: Gary Gensler, former undersecretary for domestic finance, Treasury Department. 608 DSOB. 11 a.m. Contact: 202-224-0642.

ENERGY AND NATURAL RESOURCES
National Park Service
National Parks, Historic Preservation and Recreation Subcommittee oversight hearing to review the National Park Service's implementation of management policies and procedures to comply with the provisions of Title IV of the National Parks Omnibus Management Act of 1998. 192 DSOB. 2:30 p.m. Contact: 202-224-4971.

FINANCE
Prescription Financing
Full committee hearing on prescription drugs and Medicare. 215 DSOB. 2:30 p.m. Contact: 202-224-4515.

FOREIGN RELATIONS
Security Threats
Full committee briefing on the intelligence assessment of emerging national security threats. S-407 Capitol. 10:30 a.m. Contact: 202-224-4651. (Closed.)

GOVERNMENTAL AFFAIRS
DC Metropolitan
Government Management, Restructuring and the District of Columbia Subcommittee hearing on assessing the DC Metropolitan PD's Y2K performance. 342 DSOB. 10 a.m. Contact: 202-224-4751.
Health, Education, Labor and Pensions
Health Services
Public Health Subcommittee hearing to examine increasing access to essential healthcare services. 430 DSOB. 10 a.m. Contact: 202-224-5375.

INDIAN AFFAIRS
Indian Goals
Full committee hearing on the goals and priorities of the members of the National Congress of American Indians for the 107th Congress. 485 RSOB. 2 p.m. Contact: 202-224-2251.

INTELLIGENCE
Intelligence
Full committee hearing on intelligence matters. 219 HSOB. 2 p.m. Contact: 202-224-1700. (Closed.)

=HOUSE COMMITTEES=
Administration
Committees Funding
Full committee markup of the Omnibus Committee Funding Resolution of the 107th Congress and other pending matters. 1310 LHOB. 1 p.m. Contact: 202-225-9281.

AGRICULTURE
Livestock Industry
Full committee hearing to review federal farm commodity programs with the livestock industry. 1300 LHOB. 9:30 a.m. Contact: 202-
APPROPRIATIONS

Medical Programs
Defense Subcommittee hearing on medical programs.  H-140 Capitol. 9:30 a.m. Contact: 202-225-2771.

FY02 Appropriations
Labor, HHS Subcommittee hearing on FY02 appropriations. 2358 RHOB. 10 a.m. Contact: 202-225-2771.

Transportation Appropriations
Transportation Subcommittee hearing on FY02 appropriations for the Federal Highway Administration. 2358 RHOB. 10 a.m. Contact: 202-225-2771.

FY02 Appropriations/VA-HUD
VA-HUD-Independent Scommittee hearing on FY02 appropriations under its jurisdiction.  H-143, Capitol. 9 a.m. Contact: 202-225-2771.

ARMED SERVICES

Research Companies
Military Research and Development Subcommittee hearing on innovative research companies. 2118 RHOB. 10:30 a.m. Contact: 202-225-4151, recorded schedule 202-225-2675.

Energy and Commerce
California, Part II
Energy and Air Quality Subcommittee hearing on "Electricity Markets: California." 2322 RHOB. 10 a.m. Contact: 202-225-2927.

Medical Privacy
Health Subcommittee hearing on "Assessing HIPAA: How Federal Medical Record Privacy Regulations Can Be Improved." 2123 RHOB. 10 a.m. Contact: 202-225-2927.

GOVERNMENT REFORM

Telecommuting
Technology and Procurement Policy Subcommittee oversight hearing to examine federal government agencies' efforts to create and promote telecommuting programs. Witnesses: Steve Cohen, acting director, Office of Personnel Management; David Bibb, acting deputy director, GSA; Mark Lindsey, acting administrator, Federal Railroad Administration; Tony Young, director of government activities, NIST; Braden Allenby, vice president for environment, health and safety, AT&T; Jennifer Alcott, director, Fredericksburg Regional Telework Center. 2154 RHOB. 2 p.m. Contact: 202-225-5074.

JUDICIARY

Intellectual Property
Courts, the Internet and Intellectual Property Subcommittee oversight hearing on "ICANN, NEW gTLDs and the Protection of Intellectual Property." 2141 RHOB. 10 a.m. Contact: 202-225-3951.

RESOURCES

Oil and Gas Oversight
Energy and Mineral Resources Subcommittee oversight hearing on oil and gas resources on federal submerged lands. 1334 LHOB. 2 p.m. Contact: 202-225-2761.

Land Designations
National Parks, Recreation, and Public Lands Subcommittee markup on H.R.107, to require an Interior Department study to identify sites and resources, to recommend alternatives for commemorating and interpreting the Cold War; H.R.146, to authorize the Interior secretary to study the suitability and feasibility of designating the Great Falls Historic District in Paterson, NY, as a unit of the national park system.1324 LHOB. 10 a.m. Contact: 202-225-2761.
SCIENCE
Nuclear Safety

SMALL BUSINESS
Office of Advocacy
Full committee hearing to explore ways to improve the Office of Advocacy and to make that office a more effective voice for small businesses within the federal government and the private sector. 2360 RHOB. 10 a.m. Contact: 202-225-5821.
Veterans' Affairs Committee and Senate Veterans' Affairs Legislative Priorities
Joint full committee hearing to receive the legislative priorities of the American Veterans of WWII, Korea and Vietnam, American Ex-Prisoners of War, Vietnam Veterans of America, the Retired Officers Assn., National Assn. of State Directors of Veterans Affairs. 345 CHOB. 10 a.m. Contact: 202-225-3527.
On the Hill Thursday
Environment
House Nuclear Cleanup Caucus. Briefing on cleanup efforts at Hanford, Wash. 121 CHOB. 8:45 a.m. Contact: 202-225-5816

FOREIGN AFFAIRS
Bipartisan news conference on suffering and slavery in Sudan.
Participants: House Majority Leader Arnevi and Rep. Donald Payne, D-N.J. House Triangle, Capitol. 11:30 p.m. Contact: Terry Holt, 202-225-6007. (New.)

SOCIAL ISSUES
Senate Indian Affairs Committee. First 107th Congress briefing on the genesis and foundation of Indian affairs policy, including Indian self-determination. TBA. 10 a.m. Contact: 202-224-2251.

TAXES
American Conservative Union news conference on the estate tax.
Participants: Rep. Jennifer Dunn, R-Wash.; David Keene, ACU; Karen Kerrigan, Small Business Survival Committee; Kerri Houston, American Conservative Union and others. House Triangle. 11:30 a.m. Contact: Kerrie Houston, 972-446-6854. (New.)

POLITICS

FRIDAY
=SENATE COMMITTEES=
None.

=HOUSE COMMITTEES=

ARMED SERVICES
Depot Repairs
Military Readiness Subcommittee hearing on current and future viability of depot maintenance repair, focusing on the Pre-Shop Analysis Building, Corpus Christi Army Depot, Corpus Christi, TX. 2118 RHOB. 9 a.m. Contact: 202-225-4151.

MONDAY
=SENATE COMMITTEES=
None.
WASHINGTON [Dow Jones]--The principal negotiators involved in White House-brokered talks to solve California's electricity crisis are slated to reconvene here Saturday afternoon, the U.S. Treasury Department confirmed Friday.

The resumption of high-level talks among top-ranking officials representing the Clinton administration, California, and utilities and power suppliers will take place at U.S. Department of Energy headquarters at 3:30 p.m. EST.

California Gov. Gray Davis and other key state regulators and lawmakers are to participate via a video conferencing link.

The pivotal negotiating session comes after two working groups involving lower-level officials have met since Wednesday in an effort to flesh out the details of a broad settlement package the principals discussed late Tuesday during a seven-hour meeting at the Treasury Department.
Knowledgeable sources described Treasury Secretary Lawrence Summers as taking an active role in attempting to forge an agreement during Tuesday's talks, which also featured Energy Secretary Bill Richardson, White House economic adviser Gene Sperling and Federal Energy Regulatory Commission Chairman James Hoecker.

Richardson, who is traveling this weekend in an effort to lobby oil-producing nations against a pending production cut, will not be attending Saturday's session.

The working group meetings will wrap up sometime Friday, the Treasury Department said.

The two groups have separately addressed the two primary features of the proposed settlement, which involve moving the state's financially ailing utilities out of volatile spot power markets and into fixed-price forward contracts while power producers agree to "forbearance" on the huge debt owed by the utilities.

The forbearance and contracts working groups have been meeting separately, and were to convene a joint session late Friday to compare notes before reporting back to the principal negotiators who will cut any final deal.

Those familiar with the talks have expressed a mix of pessimism and optimism that a final deal can be struck, given what they described as unrealistic bargaining demands by Gov. Davis.

He has firmly rejected retail rate increases and resisted demands for the state to guarantee the nearly $12 billion utilities have paid over the last eight months for wholesale power but been unable to pass along under state-mandated frozen retail rates.

Further complicating the talks have been demands by Davis that the proposed long-term power contracts be at rates far below the production costs of electricity generators.

But lately the pessimism has been tempered by signals that Davis may be persuaded to relent Saturday in his opposition to a state-backed securitization of the utilities' undercollections.

"Let's see their plan, and then we'll talk about that," Steve Naviglio, the governor's spokesman, said late Thursday.

Davis reportedly has been under increasing pressure from Wall Street and Clinton administration officials to reconsider his opposition to securitization.

Without a state credit guarantee, a work-out plan can't be struck, the utilities will enter bankruptcy and the state's power grid will collapse into blackouts, sources familiar with the talks warn.

The affected utilities are Southern California Edison Co., a unit of Edison International (EIX), and Pacific Gas & Electric Co., a unit of PG&E Corp. (PCG).

By Bryan Lee, Dow Jones Newswires, 202-862-6647, bryan.lee@dowjones.com

(END) Dow Jones Newswires 12-01-01

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WASHINGTON, Jan 12 (Reuters) - Treasury Secretary Lawrence Summers, other senior Clinton administration officials and top executives of electric power companies tentatively planned to meet on Saturday to finalize a fix for California's power mess, a source close to the negotiations said on Friday.

The high-level meeting was set to take place at the Energy Department at 3:30 p.m. EST (2030 GMT), with some California officials participating via teleconference, the source said.

The state narrowly averted rolling power blackouts on Thursday as already tight supplies of electricity fell to dangerously low levels because of a severe storm.

Friday marked the fourth day of negotiations among lower-level aides to map out detailed proposals for short- and long-term solutions to California's chronic electricity shortage and skyrocketing prices.

If the Friday talks failed to make as much progress as hoped, the Saturday session could be downgraded to another day of negotiations among lower-level officials on technical issues, according to another source.

Summers and Energy Secretary Bill Richardson launched the negotiations on Tuesday to prevent the bankruptcy of PG&E Corp <PCG.N> and Edison International <EIX.N>, which could ripple throughout the national economy.

Both utilities say they have run out of cash because of runaway prices wholesale power, which are now tenfold higher than one year ago. Under California's landmark 1996 deregulation law, the higher wholesale prices cannot be passed through to consumers.

The two utilities want a 90-day reprieve in repaying billions of dollars to out-of-state power generators, as well as the ability to sign long-term contracts to lock in lower prices.

(washington.commodsennergy.newsroom@reuters.com)

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=DJ POWER POINTS: By The Numbers, Calif Pwr Deal Looks Good

Dow Jones International News Service via Dow Jones

By Mark Golden
A Dow Jones Newswires Column

NEW YORK (Dow Jones)--Grandstanding by negotiators in Washington, D.C., on the California electricity crisis indicates the sides are too far apart for an agreement this weekend, but the actual numbers involved raise the question: How can they not get this done?

California Gov. Gray Davis, on behalf of the utilities that contribute so generously to his campaign funds, is demanding three-year supply contracts at 5.5 cents a kilowatt-hour. "We've got to stop the hemorrhaging of utility cash, but I can't possibly have another rate increase or any state bailout," the governor is saying.

According to sources, U.S. Treasury Secretary Lawrence Summers and the
generating company chief executives looked at Davis with a "What are you smoking?" expression several times Tuesday night. The generators' stance is that the market price is 8.5 cents/kwh and only if the contracts run for eight years.

But that's all just negotiating position. The customers of Edison International's (EIX) Southern California Edison currently pay the company 7.6 cents/kwh just for energy. That price includes last week's one-cent raise, but not other charges such as transmission and distribution.

Edison generates half the power it needs at a cost of about 3 cents/kwh. So, purchasing the other half at 5.5 cents/kwh would do a lot more than stop the hemorrhaging. If the cost of purchased power were 5.5 cents, Edison's average cost would be 4.3 cents, for which they are getting paid 7.6 cents. That 3.3 cents/kwh profit on the 83 billion kwh Edison sells a year comes to a whopping $2.7 billion annually. End of credit problem.

PG&E Corp.'s (PCG) situation is more difficult. Their customers pay less for electricity, and PG&E only generates a third of its own power, but they have lower generating costs than Edison. Bottom line: if PG&E could buy supplies at 5.5 cents/kwh, they would be left with 1.9 cents/kwh profit.

Unfortunately for the utilities, California independent generators, such as Reliant Energy (REI), NRG Energy (NRG), Dynegy (DYN), Southern Energy (SOE) and Duke Energy (DUK), can't get their prices down to 5.5 cents/kwh in California given the current market price of natural gas.

But they don't need anything close to 8.5 cents for eight years. The forward price for wholesale power in California for the balance of this year is 18 cents/kwh for the on-peak hours, which is what the utilities mostly need to buy. The on-peak price drops to 11 cents/kwh for a three-year contract because new generators and new gas supplies are expected to come on line. For an eight-year contract, the price drops to about 7.3 cents/kwh.

At 7.3 cents, PG&E would be heading to bankruptcy court. But the generators will get to sell PG&E some off-peak power, too, which brings the average price down a little further. If the governor guarantees really quick licensing for a couple of new power plants in northern California, the price comes down a lot.

What's more, to save deregulation in the U.S. the generators are willing to cut to the bone. The stocks of Dynegy, Enron Corp. (ENE), etc., have high price-to-earnings ratios because their earnings are expected to continue strong growth under electric deregulation. They are the emerging masters of a deregulated universe, but if deregulation were to throw PG&E and Edison into bankruptcy court, there wouldn't be any deregulated electric universe to master.

As one electricity trader put it: "They have got to get a deal done. If they don't get 'The California Energy Crisis' off of CNBC every 30 minutes, I'm going to be out of a job."

Generators' stock prices have been getting hammered since the first of the year due to several factors, such as profit-taking after a great 2000, according to Credit Suisse First Boston utility analyst Paul Patterson. Duke's stock has fallen to $66 from $85 since Dec. 29, for example.

Prices of generator stocks have come down hard, in part, because a California catastrophe would derail deregulation in many states and the forecasts for generators' earnings growth would be questioned, according to Solomon Smith Barney analyst Ray Niles.

That's the finances. The physical reality is that the western U.S. probably won't have enough electricity to meet demand for the rest of this year. Starting in February, if a deal is done, California utilities won't be the last in line to get their power, and the threat of blackouts will be spread out across the West.
Other than that, where's the rub? Under deregulation, consumers were supposed to get market rates in 2002. Based on the current forward market and the utilities' cost of retained generators, 7 cents/kwh for the rest of this year is a great deal. For 2002, it's fair, but for 2003-2008, it's terrible. The current purchase price for those years is about 5 cents. With utility-owned generation at 3 cents, consumers will be paying 7 cents/kwh when they should be paying 4 cents/kwh.

And the 2.4 cents/kwh competition transition charge (CTC) that was supposed to end in 2002 has to be extended several more years. The CTC is "non-bypassable," which means if you leave the local monopoly for an alternative supplier, you still have to send a couple of cents/kwh to the old utility.

Ratepayer groups got about 40 people to storm the PG&E corporate headquarters this week over the one cent rate increase. Another rate increase would cause riots and ballot initiatives, and cost Davis his job.

But can consumer groups get people out in the streets over a deal that's great now, but overcharges them starting in 2003? I doubt it.

Businesses such as Intel Corp. (INTC) will know they are getting the short end of the stick financially and that power in the western U.S. is still unreliable, so they will decide to build new factories in other states. That's how you bypass non-bypassable charges. It will be bad for the state's economic growth, but California needs to stop adding electricity demand.

The stars are aligned for a deal very soon: eight days left before the executive branch of the U.S. government changes from one that wants to help Davis to one that wants to hurt him; about the same amount of time is left before the utilities run out of cash; forward power prices have come down a lot in the past 30 days, but could easily start to rise again; merchant power company stock prices have been punished for two weeks, and their executives don't want to kill the golden goose.

How can they not get this done?

--By Mark Golden, Dow Jones Newswires; 201-938-4604; mark.golden@dowjones.com

(END) Dow Jones Newswires 12-01-01

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TOP STORIES

Genesis of State's Energy Fiasco / String of Bad Decisions on Deregulation Could
End Up Costing Consumers $40 Billion
Dec 31, 2000 - The San Francisco Chronicle Next month, about 10 million Californians may begin paying as much as 30 percent more for electricity, in a maddening coda to one of the most costly public policy mistakes ever made.

End Run Around PG&E Envisioned / Commission Wants Plan on S.F. Ballot
Dec 30, 2000 - The San Francisco Chronicle San Francisco voters may get a chance next year to form a municipal utilities district -- a crucial step toward creating a public power system in the city.

California Utility Outrages Customers with Request for 40-Percent Rate Hike
By Carrie Peyton, The Sacramento Bee, Calif. --Dec. 29--S.F. With national focus on California's electricity crisis growing, Pacific Gas and Electric Co. began notifying customers that it wants to boost their electric bills up to 40 percent by the end of 2001.

Calif Power Rate Hearings End
Dec 28, 2000 - LOS ANGELES, Dec. 28 (UPI) -- Hearings aimed at giving consumer advocates and utility officials the chance to air their views on a looming electricity rate increase concluded late Thursday, setting the stage for a decision by regulators that very well may not please anyone.

Nuclear Power May Endure in the U.S. Power Business
Dec 27, 2000 - Bloomberg Two decades after the near-disaster at Three Mile Island soured Americans on nuclear energy, the industry is showing signs of a comeback, partly because of the soaring cost of other fuels.

Competition & Deregulation

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Topic Sponsor: Energy Central Deregulation Legislation Database
The Deregulation Legislation Database, one of the industry's most comprehensive and current compilations, is available now in the Data Center. Sign up for your free trial for access to this database and related reports. Click here: http://www.energycentral.com/sections/datacenter/datacenter_home.cfm

Open Forum: Another Utility Bailout Should Leave Us Cold
Dec 31, 2000 - The San Francisco Chronicle OUR CURRENT energy problems are urgent and serious. But before the governor and the Public Utilities Commission cut yet another deal costing consumers billions of dollars, perhaps they should pause to ask the public what kind of system it wants and what it will end up with after investing billions more.

California at Energy Impasse
Dec 30, 2000 - Tulsa World Gov. Gray Davis failed to broker a compromise Thursday between utility executives and consumer advocates who are livid over looming increases in electricity bills for 10 million Californians.

Mergers, Acquisitions & Divestitures

For more information about products on this topic visit our Information Marketplace

AES buys 61.7 pct of Gener for 841 mln usd after Chilean offer closes
Dec 28, 2000 - SANTIAGO (AFX) - AES Corp has acquired 61.7 pct of Gener SA for 841.2 mln usd after its offer, launched in Chile on Nov 3, closed yesterday, the Santiago bourse said.
Missouri Commission Approves Empire, UtiliCorp Merger

JOPLIN, Mo.--(BUSINESS WIRE)--Dec. 28, 2000-- The Empire District Electric Company received an order today from the Missouri Public Service Commission approving the proposed merger of Empire and UtiliCorp United Inc.

Electricity Generating close to acquiring stake in BLCP Co
Dec 28, 2000 - BANGKOK (AFX-ASIA) - Electricity Generating Plc is close to finalising a deal with China Light Power to buy shares in BLCP Co, the operator of a coal-fired power plant with a capacity of 1,400 megawatts under the independent power producer scheme, the Bangkok Post quoted Ecomp president Sitthiporn Ratanapad as saying.

Aboitiz Equity acquires Northern Mini Hydro Corp for 395 mln pesos
Dec 28, 2000 - MANILA (AFX-ASIA) - Aboitiz Equity Ventures said it had acquired Northern Mini Hydro Corporation for 395 mln pesos.

Huaneng Power, Shandong Huaneng to merge Dec 31
Dec 29, 2000 - SHANGHAI (AFX-ASIA) - Huaneng Power International Inc and Shandong Huaneng Power Development Co Ltd will merge on Dec 31, the China Daily reported.

Rates

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PG&E Tells Puc Bankruptcy Looms without Rate Hike / Utility Wants 26% More for Supplying Electricity
Dec 30, 2000 - The San Francisco Chronicle Pacific Gas and Electric Co. officials defended their request for a 26 percent rate hike today, telling an emergency meeting of state regulators that the utility may go bankrupt without an immediate infusion of cash.

California energy companies lobby for higher rates
SAN FRANCISCO, Dec 28 (AFP) - California's investor-owned utilities need a surge in electricity rates to save them from bankruptcy brought on by poorly-handled deregulation, the companies argued Thursday.

California Utility Officials Continue to Press for Higher Rates
By Jack Chang, Contra Costa Times, Walnut Creek, Calif. --Dec. 29--SAN FRANCISCO-- Utility officials continued pleas for massive rate hikes before a state commission Thursday and outlined plans for even more increases in 2001 if wholesale energy costs don't drop soon.

Unility/Concord Electric Company and Unility/Exeter & Hampton Electric Company Fuel and Purchased Power Rates to Increase January 1

Many Utilities Request Natural-Gas Rate Hikes; High Costs to Continue Through 2003
IssueAlert, Dec. 29 (Scientech) The first blast of winter temperatures has resulted in some real-world impacts from the natural-gas shortage and related high prices on the wholesale market. A growing number of electric utilities across the country have requested rate increases in order to cover their expenses for obtaining the power, especially natural gas, that they must provide to customers.

Special Offer from this Publisher!
General

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Boosting Public Power
Dec 28, 2000 - Bond Buyer Public power weathered the deregulation and legislative squalls of 2000 fairly well and faces what appears to be a relatively bright and stable future in 2001, according to market participants and analysts.

Joint Ventures & Alliances

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Deals/Contracts

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Gas Natural wins contract to supply electricity to Madrid military hospital
Dec 29, 2000 - MADRID (AFX) - Gas Natural SDG SA said its La Energia unit has won a contract to supply electricity to the Gomez Ulla military hospital in Madrid.

Power Pricing/Supply

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Silicon Valley preps for energy crisis
SAN FRANCISCO, Dec 28 (AFP) - High-tech companies in California's Silicon Valley are scrambling for backup power sources as the state's energy crisis continues.

Transmission & Reliability

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PECO Energy Goes to Full Emergency Alert for New Year's Weekend Snowstorm
PHILADELPHIA, Dec. 29 /PRNewswire/ With a potential major Nor'Easter storm approaching the region, PECO Energy Company said it has moved into an Alert status for its customer service, operations and support personnel to prepare for emergency response.

OG&E Reports Progress in Restoring Electric Service After Ice Storm
OKLAHOMA CITY, Dec. 30 /PRNewswire/ OG&E Electric Services today reported progress in restoring electric service to thousands of its customers left without power after the ice storm of Dec. 25-26.

Arkansas Utility Companies Battle Cold, Bad Weather
Arkansas Democrat-Gazette --Dec. 29--SPRINGDALE, Ark. Utility companies made slow progress restoring power to Northwest Arkansas customers Thursday as ice continued to topple trees
Utility Crews Flock to Ark. To Help
Dec 29, 2000 - LITTLE ROCK, Ark. (AP) - There's a high-wire act going on over Arkansas, cold and cranky after the second ice storm of the month plunged much of the state into darkness.

"This Is a Natural Disaster' Situation in Many Areas Is Going from Bad to Worse
Dec 30, 2000 - Tulsa World With power lines and streets still covered in 2 inches of ice, the hospital still had no water Thursday. The maximum-security prison was without electricity. And half-frozen residents were straggling into shelters after toughing it out for days in dark, unheated houses.

TXU ELECTRIC & GAS CREWS RESTORE NEARLY 90% OF ICE VICTIMS
Dallas, TX - December 29, 2000 TXU Electric & Gas crews have restored service to nearly 90 percent of customers affected by a severe ice storm this week.

Legal

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Baker to Take Charge Resulting From Judgement In ADF Litigation
PITTSBURGH--(BUSINESS WIRE)--Dec. 29, 2000-- Michael Baker Corporation announced today that a judgement of $10.0 million has been issued against its subsidiary, Baker Mellon Stuart Construction, Inc., by the U.S. District Court for the Middle District Court of Florida relative to the previously disclosed claim of ADF International, Inc., in connection with the Universal Studios CityWalk project.

Plants

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Huntington Beach, Calif., Power Plant Criticized for Increased Production
By Hanh Kim Quach, The Orange County Register, Calif. -- Dec. 29 When the AES Pacific Corp. power plant in Huntington Beach cranked up its noisiest and most polluting power-generating units this past month, it did not go unnoticed.

Drought Leaves Tacoma, Wash., Hydroelectric Reservoir Resources Below Normal
By Al Gibbs, The News Tribune, Tacoma, Wash. -- Dec. 30 More bad news for Northwest electricity users: Rainfall and snowpack in the mountains whose streams fill the region's hydroelectric reservoirs are well below what they should be.

Environmental

For more information about products on this topic visit our Information Marketplace

Grass Rooftops Save Energy, Cool Air in Cities
By Suzanne Elston, Environmental News Network, Sun Valley, -- Dec. 30 During the summer months, the temperature of a conventional flat rooftop can soar up to 140 degrees Fahrenheit -- hot enough to fry an egg.

Nuclear
For more information about products on this topic visit our Information Marketplace

**Lithuania secures EU funding to shut down reactor**

**VIILNIUS, Dec 29 (AFP)** - Lithuania's government said Friday it had obtained a loan of 45 million euros (42 million dollars) from the European Union to help it decommission the first reactor unit at Ignalina nuclear power station.

**Disputed Czech N-plant powering up again after glitch**

**PRAGUE, Dec 29 (AFP)** - A disputed Czech nuclear plant plagued by technical problems has powered up to 29 percent of its capacity, and is due to be re-connected to the national power grid Saturday, a spokesman said Friday.

**Jordan to launch first nuclear power plant in year's time**

**AMMAN, Dec 31 (AFP)** - Jordan will start operating a small nuclear power reactor in early 2002 for scientific research and other non-military purposes, Jordan's energy minister was quoted Sunday as saying.

**PPL's Susquehanna Nuclear Plant Sets Generation Record**

**ALLENTOWN, Pa., Jan. 1 /FRNewswire/** - PPL's Susquehanna nuclear plant produced more electricity in 2000 than it has in any year since the plant began operation in 1983.

**EU grants Lithuania govt 45 mln eur for Ignalina nuclear plant decommissioning**

Dec 29, 2000 - AFX News Limited The EU has granted Lithuania 45 mln eur to help decommission the first block of the Ignalina nuclear power plant, the minister for foreign affairs said.

**Financial**

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**Greenspan's California Power Crisis Talks Boost Hopes for US Rate Cut**

Dec 27, 2000 - The Independent - London HOPES THAT the US Federal Reserve may cut interest rates early in the new year resurfaced yesterday as Alan Greenspan, the chairman, met the Governor of California in Washington to discuss a crisis that threatens to bankrupt the state's two biggest power utilities.

**PG&E Workers May Lose Their Annual Bonuses / PG&E Workers May Lose Their Annual Bonuses**

Dec 30, 2000 - The San Francisco Chronicle As Northern California consumers face the prospect of big increases in their power bills, employees of Pacific Gas and Electric Co. are looking at the likelihood that annual performance-based bonuses will be reduced or even eliminated this year.

**Black Hills Corporation Obtains Holding Company Approval and Announces Shelf Registration for Future Capital Offerings**

**RAPID CITY, S.D., Dec. 28 /FRNewswire/** - Black Hills Corporation today announced the culmination of approvals resulting in the formation of a holding company business structure. Shareholders had earlier ratified the change at the Company's annual meeting on June 20, 2000. Effective December 22, 2000, outstanding shares were automatically exchanged on a one-for-one basis for shares of the holding company.
HENWOOD DETAILS SUMMER 2001 ELECTRICITY FORECASTS THROUGH RELEASE OF WSCC INTERCONNECTS AND POWER FLOWS MAP

December 29, 2000 Sacramento, CA Henwood Energy Services, Inc. announced the release of a newly-developed WSCC market power map detailing forecasts for Summer 2001. The Henwood WSCC 2001 Interconnects and Power Flows Map defines the Summer 2001 power needs for the WSCC including California.

International

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Spain govt approves avg 1.52 pct cut in 2001 electricity tariff
Dec 29, 2000 - MADRID (AFX) - The cabinet has approved an average 1.52 pct reduction in electricity tariffs for 2001, the government said.

Tokyo Electric Power to Move Into Rival Tohoku's Turf (Update5)
Dec 27, 2000 - Bloomberg Tokyo Electric Power Co., Japan's biggest power utility, said it will supply electricity in the northern Tohoku region, an area where Tohoku Electric Power Co. has long been the dominant power supplier.

Mexican State-Owned Power Company Loses 3.6 Billion Pesos
Dec 28, 2000 - Infolatina S.A. de C.V. Mexican state-owned electricity company Luz & Fuerza del Centro during the first half of 2000 lost 3.6 billion pesos despite the fact that it received federal subsidies totaling 4.4 billion pesos.

Endesa confirms 42 bln ptas investment with Elencon in Argentina
Dec 27, 2000 - MADRID (AFX) - Endesa SA said it has signed an agreement with Elecnor SA to form the 50-50 joint venture Energias Argentinas SA (Enarsa) which will invest an initial 42 bln ptas in wind-energy projects in Argentina.

EU commission reportedly may oblige Spain's power cos to pay back govt subsidy
Dec 27, 2000 - AFX News Limited The European Commission may oblige Spanish power companies to pay back part of the subsidies received from the government, yesterday's El Pais reported.

Spain 2000 electricity demand up 6.25 pct vs yr-earlier - Red Electrica

EGCMEP seen affected by power surplus in 2001: Seamico Securities
Dec 28, 2000 - BANGKOK (AFX-ASIA) - Electricity Generating Plc is expected to be negatively affected by an electricity surplus in 2001 due to the company's plan to invest in independent producer projects and small producer projects, a report by Seamico Securities said.

Union Fenosa sees 2001 overseas ops revenue 2.530 bln eur vs 1.448 in 2000
Dec 29, 2000 - MADRID (AFX) - Union Electrica Fenosa SA said revenue from its overseas operations are expected to nearly double in 2001 to 2.530 bln eur from 1.448 bln in 2000.

Telenor exercises 10 pct VIAG put option; BT to pay more than 20 bln nkr
Dec 29, 2000 - AFX News Limited Telenor ASA said it is exercising an option to sell its 10
pct stake in VIAG Interkom GmbH to British Telecommunications PLC.

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3. Compromise nearing in California electricity crisis (12/25/00)

4. Activists Blast Davis' Energy Plans / Rate Increases Should Not Be Used to Bail Out Utilities, Consumer Groups Say (12/25/00)

5. California Utilities Receive Rate Hike, Threat of Bankruptcy Still Looms (12/26/00)
------ End of message body

Message auditing by MicroData CAMEO Recon
From: Squitieri, Ray
Sent: Thursday, February 21, 2002 12:10 AM
To: SearchCameo
Subject: CAMEO Recon found a word: Enron sent by James_Mietus@omb.eop.gov to paula.farrell@do.treas.gov; kevin.kelly@ferc.fed.us; dan.larcamp@ferc.doe.gov.treas.gov; ray.squitieri@do.treas.gov; Alexander_M._Brill@cea.eop.gov; Wallace_P._Mullin@cea.eop.gov; arthur.rybinski@dow.hq.gov.treas.gov, From James_Mietus@omb.eop.gov, CC to , Date 7/16/2001 11:57:14 AM, Subject of message FYI on TVA: Critics attack TVA secrecy

-----Original Message-----
From: James Mietus@omb.eop.gov
Sent: 7/16/2001 11:57:18 AM
Received: 7/16/2001 11:57:21 AM
To: paula.farrell@do.treas.gov, SMTP:paula.farrell@do.treas.gov
    kevin.kelly@ferc.fed.us, SMTP:kevin.kelly@ferc.fed.us
dan.larcamp@ferc.doe.gov.treas.gov, SMTP:dan.larcamp@ferc.doe.gov.treas.gov
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Alexander_M._Brill@cea.eop.gov, SMTP:Alexander_M._Brill@cea.eop.gov
Wallace_P._Mullin@cea.eop.gov, SMTP:Wallace_P._Mullin@cea.eop.gov
arthur.rybinski@dow.hq.gov.treas.gov, SMTP:arthur.rybinski@dow.hq.gov.treas.gov
CC:
Subject: FYI on TVA: Critics attack TVA secrecy
Body:
Here's a news article from this morning's Chattanooga paper, in which an independent power producer alleges TVA is being inappropriately secretive with respect to price, cost and production information.

Chattanooga Times Free Press - Monday, July 16, 2001
Critics attack TVA's secrecy
By Dave Flessner
Business Editor
Tennessee Valley Authority's power load center in the bowels of its downtown Chattanooga complex is designed to be secure against bombs, missiles and terrorists.
But the secrecy of the power center is now under attack.
The federal utility no longer discloses current information about power loads, business operations or even if one of its nuclear plants has shut down. For the first time, TVA officials aren't telling what they expect the peak power demand to be this year in the Tennessee Valley.
TVA officials say such information could sometimes push up the cost of power the agency buys or lower the amount it receives for electricity it generates and sells to other utilities.
"We're on a trading floor now and if the market knows that one of our units is down, power markets can more easily raise the price of what they sell to us," TVA President O.J. "Ike" Zeringue said. "That's a never a good situation."
But critics claim the government utility is often shielded from public scrutiny and is blocking information needed for a competitive market to operate freely.
"Under the guise of 'potential business competition,' TVA is withholding a lot of information," said Michael Knauff, a former TVA power trader who now
heads Tennessee Power Co., an independent power producer in Chattanooga. "The exchange of data is necessary to have a fluid and effective market, but TVA doesn't want anyone to know what they are doing so no one can criticize them. If TVA is going to operate just like a private business, maybe it should just be one."

OLD DEBATE FOR NEW DEAL AGENCY
The dispute over how much freedom TVA should have in its power operations is as old as the New Deal agency itself. When President Franklin Roosevelt established TVA in 1933, he envisioned "a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise."

Unlike most utilities, TVA is free to set its own rates and conduct its own business without approval or oversight by any state regulatory board. TVA is also exempt from direct oversight by the Federal Energy Regulatory Commission and isn't covered by many antitrust laws.

But until recently, TVA was still beholden to the U.S. Congress for money to pay for its nonpower programs. As a government agency, TVA also regularly disclosed its plans for buying, generating and transmitting power around its seven-state service territory. Congress cut off TVA funding three years ago, however. At the same time, the growing competition and deregulation in the electricity industry encouraged TVA to keep quiet about many of its operations. TVA now limits access for even its own staff to the trading room adjacent to the power load center where TVA buys and sells power each day. "There is a problem when we are out purchasing power if other people know that our plants aren't operating or they know what we are planning to buy that day," Mr. Zeringue said. "If they know one of our big assets is down, then the price that is available to us for buying power will probably be just under what it would cost if we fired up our gas turbines (TVA's most expensive power generation). We get taken to the cleaners on it. That's why we are a little hush-hush."

Mr. Zeringue said TVA is keeping most information about the current status of its power operations to itself, although he said information about plant operations could be disclosed later. Many of the inquiries about TVA's power status come from competitors interested in gaining a price advantage, not from consumers trying to ensure TVA keeps its costs down. "We occasionally get calls from strange places wanting to know this, that and the other. We just don't respond to the calls," Mr. Zeringue said. Even years after power trading deals are completed, TVA is sometimes unwilling to disclose any of their terms. Earlier this year, for instance, a power marketing arm of Enron Corp. settled one of TVA's biggest lawsuits for an undisclosed amount. TVA sued Enron after it failed to provide enough power during the summers of 1998 and 1999. But the terms of the multimillion-dollar settlement prevented TVA or Enron from disclosing any of the details of their trading arrangements or monetary settlement.

WHO'S WATCHING THE STORE?
Environmentalists complain that the increased secrecy over costs of generating and trading power makes it difficult to evaluate TVA's decisions and operations.

"I think it is a very dangerous trend," said Stephen Smith, executive director of the Southern Alliance for Clean Energy, a Knoxville-based consumer and environmental group. "We don't necessarily want TVA to be at a competitive disadvantage, but whether or not a plant is running is certainly information that the public has a right to know about."

Dr. Smith said his group's assessment about the costs of operating TVA's oldest coal plants compared to generating power from cleaner sources is being undermined by TVA's refusal to disclose its costs of operations.

"This lends itself very easily to abuse," he said.

But supporters of deregulation insist the market discipline of competition will help ensure utilities are well run and meet consumer demands. Public power enthusiasts also note that government agencies are subject to state and federal open records requirements, unlike investor-owned utilities.

"We're regulated by our customers who own us and are our neighbors," said Alan Richards, president of the American Public Power Association. "I think more information about power activities is better than less and, in general, public power is much more open than are our investor-owned counterparts."

But private utilities disagree.

"There's always been a problem of disclosure by TVA because they are not subject to the same oversight that the investor-owned utilities are through FERC and state public service boards," said John Howes, executive director of TVA Exchange, a lobbying group that monitors TVA for other Southern utilities. "As the market becomes more regional and national, TVA needs to operate under the same rules of disclosure that its neighboring utilities do."

"If TVA is a federal agency and enjoys the exceptions and benefits of a government agency, why don't they behave like a public identity?" Mr. Knauff asked.

------ End of message body

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This message was found to have a Critical Word in it. Message Sent to Carter, Ted;
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Lisa, From /O=USTREASURY/OU=DO/CN=RECIPIENTS/CN=GROUPWISE/CN=DOM3.DOPO5.JONESJA, CC to , Date
11/9/2000 9:31:00 AM, Subject of message Linda Robertson's info.

Word(s) found: Enron

----Original Message----
From: /O=USTREASURY/OU=DO/CN=RECIPIENTS/CN=GROUPWISE/CN=DOM3.DOPO5.JONESJA
Sent: 11/9/2000 9:31:00 AM
Received: 11/9/2000 9:32:07 AM
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CC:
Subject: Linda Robertson's info.
Body:
Linda L. Robertson  
Vice President, Federal Government Affairs
Enron
1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006
(202) 466-9159 (direct)
(202) 826-3372 (FAX)
e-mail address: linda.robertson@enron.com

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CC:
Subject: Linda Robertson's info.
Body:
Linda L. Robertson
Vice President, Federal Government Affairs
Enron
1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006
(202) 466-9159 (direct)
(202) 828-3372 (FAX)
e-mail address: linda.robertson@enron.com

------ End of message body

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This message was found to have a Critical Word in it. Message Sent to jwang@cera.com, From Squitieri, Ray, CC to , Date 7/11/2001 3:14:09 PM, Subject of message FW: TradeSpark Emerges as Leader in Online Trading, Edges In On EnronOnline

--- Original Message ---
From: Squitieri, Ray
Sent: 7/11/2001 3:14:09 PM
Received: 7/11/2001 3:14:09 PM
To: jwang@cera.com, SMTP:jwang@cera.com

CC:
Subject: FW: TradeSpark Emerges as Leader in Online Trading, Edges In On EnronOnline

Body:
may be of interest. Woof!

--- Original Message ---
From: SCIENTECH IssueAlert [mailto:IssueAlert@scientech.com]
Sent: Wednesday, July 11, 2001 8:50 AM
Subject: TradeSpark Emerges as Leader in Online Trading, Edges In On EnronOnline

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**SCIENTECH**

**IssueAlert**

July 11, 2001

TradeSpark Emerges as Leader in Online Trading,
Edges In On EnronOnline

By Will McNamara
Director, Electric Industry Analysis

[News item from Reuters] Online energy marketplace TradeSpark said on July 10 that it traded products with a notional value of $41.9 billion in the second quarter of this year, up from $18 billion in the first quarter. The rise in the second quarter brought the total transaction value since TradeSpark’s October 2000 launch to $71 billion. According to TradeSpark, during the second quarter the system was used to trade over 6.8 billion MMBTUs of natural gas instruments, with a notional value of over $33 billion, a rise of 189 percent over the first quarter. It was also used to trade about 155-million megawatt hours of electricity instruments, with a notional value of some $8.2 billion, a rise of 29 percent over the first quarter.

Analysis: As we have now reached the mid-year point, it is a good time to take a step back and assess how the online energy trading market is being repositioned. EnronOnline, which launched in August 1999, certainly has been the market leader since that time, but TradeSpark (on the basis of its strong performance and one key distinguishing feature that sets it apart from Enron) has emerged as a formidable player this year. In fact, 2001 could very well become the year that TradeSpark inches ever closer to EnronOnline, closing the gap in what has become a highly saturated market. The online trading space is prone to rapid consolidation and many players that emerged over the last year have found it a daunting challenge to establish liquidity. However, other players (and TradeSpark is part of this group) have taken full advantage of market volatility, the high cost of natural gas that was common earlier this year, and the ongoing advances in Internet technology to forge ahead with a promising new business model.

For background, TradeSpark was formed in September 2000 by trading systems developer eSpeed, Inc. (Nasdaq: ESPD), brokerage Cantor Fitzgerald and several energy companies, including Dominion Resources (NYSE: D), TXU Corp. (NYSE: TXU), Williams Cos. (NYSE: WMB), Koch Energy Trading, and Royal Dutch / Shell unit Coral Energy. eSpeed has an equity stake in the TradeSpark partnership. Through this equity stake, eSpeed is able to share in all potential upside value of TradeSpark, based on an initial investment in the exchange of $2 million cash, representing a 5-percent equity stake in the exchange. TradeSpark is creating one large liquidity pool by bringing together several mediums, including the Internet, voice brokering and eSpeed’s 300 millisecond private global network.

The affiliation with eSpeed was particularly important as TradeSpark did not have to construct a trading infrastructure, as it adopted the one that had already been put into place by eSpeed. This allowed TradeSpark to enter the market earlier than many of its subsequent competitors and gain an important first-strike advantage. The exchange offers trader services such as real-time prices for commodities, maturities, delivery points, and other benchmarks of the market. eSpeed, an independent trading company that spun off from Cantor Fitzgerald in 1999, provides the technology infrastructure that supports the TradeSpark exchange, along with supporting other multiple buyer/multiple seller electronic marketplaces. eSpeed is an end-to-end electronic trading system that can accommodate up to 150 transactions per second, per instrument, with an as-mentioned 300-millisecond execution time. The customizable system displays all prices on the system anonymously to all market participants. Note that even before the partnership with TradeSpark, eSpeed had received investments of $25 million each from Dynegy and Williams to develop at least four new commodity-specific electronic spot and futures trading marketplaces.
However, it is clearly Enron that blazed the trail for online energy trading and remains the king of this market. As of the end of 2000, Enron had traded $336 billion worth of commodities on EnronOnline, led by electricity and natural gas (Enron also trades other commodities such as bandwidth and paper). As of late June, it has been reported that the notional value of all transactions on EnronOnline exceeded $650 billion, and the exchange’s daily volume has soared to about 5,000 trades. Yet, while Enron may still be the largest online energy exchange, TradeSpark’s recent growth is quite impressive, especially considering that EnronOnline had a one-year jumpstart on all the other trading exchanges that subsequently formed. TradeSpark maintains that it has transacted $30 billion worth of energy products (notional value) since its October 2000 launch. Further, the dollar amount traded on the exchange has grown steadily, from $12 billion in 4Q 2000 to $18 billion in 1Q 2001. Obviously, there is still a huge gulf in notional transactions that separates EnronOnline from TradeSpark, but among the list of other trading exchanges (such as Intercontinental Exchange, DynegyDirect and HoustonStreet) TradeSpark appears to be one that shows real potential of becoming a true competitor to EnronOnline.

In any comparison between the two exchanges, it is important to establish the key element that makes TradeSpark unique from EnronOnline. TradeSpark is a multi-buyer/multi-seller trading exchange that offers anonymous bidding to an open market of traders. EnronOnline, on the other hand, is a proprietary trading exchange. In other words, in every transaction that takes place on EnronOnline, Enron participates as either a buyer or a seller. TradeSpark says that about 54 percent of its average daily transactions originate from activity between non-partners (companies that were not original founders of the exchange). This statement indicates that liquidity is growing at a steady pace on the TradeSpark exchange. While the majority of TradeSpark’s traders appear to be non-partner members, it is important to note that the founding members mentioned above receive incentive payments in the form of warrants if TradeSpark is successful. In other words, should TradeSpark hit $250 million in revenue by its fifth year, eSpeed would make available 8 million warrants at a strike price of $27.94 to the founding members of TradeSpark. Thus, the founding members are more inclined to participate on the exchange, which in turn sparks interest from other participants and increases TradeSpark’s liquidity.

The neutrality issue is arguably the most important distinguishing feature between EnronOnline and TradeSpark, and could be the one factor that is presently driving TradeSpark’s success. Many traders who participate on various exchanges have expressed a preference for those marketplaces that offer multiple buyers and sellers. As is the case with EnronOnline, when a trader knows that a particular company is always a participant as a buyer or a seller in every transaction on their exchange, some trading companies may be hesitant to reveal strategic information to the exchange-owning company. In addition, regulatory pressures from the Federal Trade Commission may eventually make neutrality a requirement, which is something that exchanges such as EnronOnline may have to address and exchanges such as TradeSpark have already incorporated. When given a choice over various trading exchanges on which to participate, my general impression is that traders would prefer to participate on an exchange where issues of disclosing competitive information are not a concern.

I also think it significant that the bulk of TradeSpark’s trading volume is coming out of the natural-gas business. While the exchange focuses on both natural gas and electricity instruments, in 2Q 2001, TradeSpark’s average natural-gas trading volumes increased from 100 million MMBTU to a trading high of 406 million MMBTU on June 7, 2001. Further, TradeSpark has experienced a 90-percent increase in the amount of natural-gas MMBTU traded on the exchange, while the level of electricity megawatt hours has increased by 17 percent. During the 1Q 2001 period, TradeSpark traded more than 2.18-billion MMBTU of natural gas instruments (a notional value of about $11.6 billion) and 120-million MWhs of electricity instruments (a notional value of about $6.4 billion).

As a whole, the online trading market appears to be riding the wave of a major growth spurt. A study conducted by AMR Research showed that 600 energy trading exchanges existed in April 2000. This
number grew to 1,500 by September 2001. A separate report conducted by Forrester Research indicates that online trading in wholesale markets increased 750 percent from 1999 to 2000. The same report projects that online trading volume will continue to grow, leaping from $400-billion market in 2000 to a $3.6-trillion market in 2005.

Of course, not all of these exchanges are expected to be successful. In fact, the vast majority of them will probably shut down or be forced to merge with another partner to ensure survival. As consolidation continues within the online trading space, most projections suggest that two primary kinds of exchanges will remain active. One of these exchanges is likely to be a liquidity hub that attempts to attract members that want to exchange price risk in pure commodities, which is represented by EnronOnline, DynegyDirect, etc. The other exchange that will survive will probably be a merchant platform that attempts to bring multiple market players together, which is represented by TradeSpark, HoustonStreet, Intercontinental Exchange, and others.

The primary challenge for all online trading exchanges is to establish liquidity. What traders appear to want and what makes an exchange successful is liquidity, meaning essentially the amount of transactions on the exchange and, consequently, the opportunity to access beneficial deals. TradeSpark’s model has been unique due to the rush-to-market capability that the alliance with eSpeed supported, and also the incentive program among its founding members, which apparently has played a role in increasing participation on the exchange. The remaining half of this year should be fertile ground for TradeSpark to exhibit continued growth. However, as consolidation continues to remain an undercurrent in the online trading market, it is still rather premature to project which exchanges will remain in operation once the dust settles.

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May 22, 2001

*Enron Locked in Contentious Battle over Indian Project*

By Will McNamara
Director, Electric Industry Analysis

[News item from Reuters] The Indian federal government is optimistic that Enron Corp. (NYSE: ENE) and the Maharashtra state government will resolve their wrangle, which has jeopardized the U.S. energy giant's $2.9 billion power project. Indian lenders want their federal government to intervene after a threat by Enron Corp., the country's largest foreign investor, to walk out of a giant power project has put the loan of the Indian groups in jeopardy. Local lenders including the Industrial Development Bank of India and the country's largest commercial bank, State Bank of India, stand to lose billions if Enron pulls out the deal. On May 19, Enron took a major step toward pulling the plug on the project by issuing a notice to terminate its contract to sell power to the Maharashtra state.

Analysis: This news item is significant for two reasons. First, Enron's ongoing troubles in India are causing other power companies to also scramble from their investments in the country or avoid India altogether. This comes at an unfortunate time for the undeveloped country, as it was hoped that the investment from Enron and other companies would provide a significant financial boost to India's energy infrastructure. Second, it is rather ironic that Enron, which has gained an earnings boon from its wholesale and trading activities in the United States, has faced financial challenges overseas by following the one business strategy that it has mostly avoided in this country: owning hard generation assets.

By way of background, Enron was first approached by the Maharashtra government back in 1992 regarding the joint development of a new power project to serve the western part of India. In the mid-1990s, Enron broke ground on the 2,184 MW project on India's western coast (near Bombay, which is the capital of Maharashtra) that reportedly will be the largest natural gas-fired power project in the country upon its completion. Some reports suggest that it is the largest natural-gas plant in the world. The plant is in the midst of its first operational phase (with 750 MW up and running) and is scheduled to begin its second phase (1,444 MW) in June. The company that owns and operates the power project is Dabhol Power Company, in which Enron holds a 65-percent interest (the state of Maharashtra owns the other 35 percent). Under terms of the contract, the state of Maharashtra agreed to purchase the totality of power produced at Enron's plant.

However, problems began to surface over the last six months or so, heightened by Maharashtra's recent default on payments to Enron. Dabhol Power has been criticized for charging 7.1 rupees per kilowatt-hour, compared with the market's average of 1.5 rupees (for conversion purposes, $1 equals 46.93 rupees). Citing what it claimed were high costs charged by Dabhol, the state of Maharashtra reportedly refused to pay for any power produced from the second phase of the Dabhol plant. At last count, the state government owes Enron approximately $48 million for power transactions completed last December and January, and could owe $607 million if the contract is terminated.

Citing payment defaults by the state of Maharashtra and non-cooperation from both the state and federal government in India, Enron issued a preliminary notice to terminate future power sales from its Dabhol plant. Enron also declared a state of force majeure, a legal strategy that allows a company to break a contract for reasons beyond their control. In response, Indian leaders-driven by valid concerns about the financial repercussions that a broken contract would have—are requesting the country's federal government to intervene and prevent any break in the contract. Lenders such as the State Bank of India, the country's largest commercial bank, also plan to fight Enron on its plans to rescind the contract.

As noted, Enron's problems in India are causing a damaging domino effect for the undeveloped country.
Being the international energy giant that it is, Enron probably won't suffer too much if it does indeed terminate its contract with the Indian government, and perhaps can find another buyer in the country for the power produced by the Dabhol plant. Enron also has reportedly pulled out from all of the other projects in India in which it had once planned to invest, including Metgas (a liquefied natural-gas pipeline) and India-based projects led by Enron Broadband Services and Enron Oil & Gas. This ongoing divestiture in India should reduce the company's risk exposure related to the country's instability.

On the other hand, the failed contract will most likely do a fair amount of damage to the energy market in India, which is already perceived as a less than lucrative country in which to develop power projects. Some reports have indicated that India received only $2.6 billion in foreign investment in 2000, representing three times less than Singapore, a country representing only one-fourth of the economy of India. Any deterrent toward further power expansion in India would exacerbate concerns about the country's ability to meet growing demand for electricity.

Further, at least four foreign power companies (Cogentrix of the United States, EDF of France, Powergen of the United Kingdom, and Daewoo Corp. of South Korea) already have pulled out of the Indian energy market. At the same time, many domestic companies also have postponed their own power projects as a result of legal obstacles. In addition to a tainted reputation, Indian leaders also stand to lose financially as well, as loans given to the Indian government reportedly are not covered by any guarantee (unlike overseas lenders who are protected by guarantees).

Enron's announcement that it intends to terminate the contract has triggered a "cooling period" that will last for six months, during which time the Indian federal government will continue trying to convince Enron to maintain its end of the contract. Interestingly, in early May Enron said that it had "no immediate plans" to sell its stake in the Dabhol power project and added that it would make no move on the plant until the payment disputes with the state of Maharashtra are resolved. Other statements made by Enron Chairman Kenneth Lay have suggested that the company might continue to own the Dabhol project and proceed with the completion of the second phase, regardless of any payment that Maharashtra may or may not make. Given the sharp increase in demand that is expected in India, it would make sense for Enron to want to retain its majority ownership of the power plant and work a deal to sell its power to another Indian buyer.

Enron has been fairly consistent with regard to its strategy of not owning hard assets on any long-term basis. Typically, Enron has accumulated infrastructure in various commodities (e.g., electricity generation, natural gas, bandwidth) in order to ensure that it can provide a product where the customer wants it. However, once Enron has established itself within that commodity, all it really needs is access to the infrastructure, rather than outright ownership, so divestiture has typically followed. The company might have perceived the Indian market to offer unique opportunities, due to the lack of infrastructure across the country. However, now it appears that Enron's majority ownership in the Dabhol plant may be causing more for the company than the assets are worth.

The possible termination of the Dabhol contract with the state of Maharashtra would mark the third sales deal that Enron has broken in recent months. Most recently, the company announced that it is bowing out of $43.5-billion project to route Qatari gas to the United Arab Emirates and has sold its stake in Dolphin Energy to UAE Offsets Group for an undisclosed amount.

In addition, Enron is being sued by a group of California universities over the schools' claim that the company breached a four-year contract, signed in 1998, to provide power at a 5-percent discount to the utility rate frozen by California's 1996 deregulation law. Scheduled to expire in 2002, the deal between Enron and the California university system included a peak power load of 350 MW and is estimated to be worth about $500 million. Although Enron cited problems associated with California's energy crisis,
once in court the company disclosed that the contract with the California universities no longer represented an economic business strategy and that the company was actually losing money on the contracts (although it would not confirm a specific amount).

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Correction to 6/21/01 IssueAlert—Due to a typographical error, yesterday's column incorrectly stated that JEA (formerly known as Jacksonville Electric Authority) has 35,000 customers in a four-county area in northeast Florida. The number should have been 350,000 customers. In fact, as of June 22, JEA's Website indicates that it now has more than 600,000 customers in northeast Florida. We apologize for this typographical error.

IssueAlert™
June 22, 2001

Enron Embroiled in Power Plant Wars in Florida
By Will McNamara
Director, Electric Industry Analysis

Deerfield Beach, Fla., gave Enron the green light to build a natural gas-fired power plant just one mile north of a site it abandoned earlier in the same week amid fierce opposition. The unanimous approval from the city's development committee all but clears the way for the Texas-based company to go forward with seeking further permitting requirements on the 510-MW plant. Enron still needs a state air quality permit, something that nearby cities have said that they will fight. Assuming that Enron receives all the necessary approvals, the company could begin building the plant within the next year.

Analysis: The press materials surrounding this announcement, which is being presented as a coup for Enron in the Florida market, may belie the fact that the energy powerhouse continues to face an uphill battle to bring this new power plant into the state. Amidst new reports that Florida may face a power shortage, resistance toward new power plants in the state remains high among community groups and incumbent utilities. Further, while Enron has put its reputation in jeopardy in Florida by a taking an aggressive route toward gaining a foothold in the state's wholesale generation market, other out-of-state power companies have not encountered as much resistance by forming less-controversial power contracts.

First, there are some fundamental aspects of Florida's $13 billion electric market that should be established for context. The state has taken a "go slow" approach toward electric competition and, at this point, there is no plan to initiate retail competition in Florida. However, leaders of the state (including Gov. Jeb Bush) have supported competition in the state's wholesale market in an effort to move cautiously toward total deregulation. Florida's Energy 2020 Study Commission, which is preparing the blueprint for competition in the state, endorsed a plan to allow out-of-state companies to enter Florida's wholesale market by building new plants and selling power to the state's incumbent utilities. However, the Florida Supreme Court has banned out-of-state companies (such as Enron) from building merchant plants in the state, which would be free to sell power anywhere and are not subject to rate regulation by the state's regulatory commission. Florida law does allow out-of-state companies to build peaker plants, as long as they only operate in times of especially high demand when normal supplies are strained.

It is into this climate that Enron began making attempts to penetrate Florida's wholesale market about a year ago. Enron maintains that its policy is to seek multiple sites for power plants when it moves into a new market, and thus has several pending Florida locations on its radar. Yet, the first site that Enron selected for a new peaker unit was recently scrapped when Enron faced substantial community resistance from groups that were concerned about the plant's impact on the environment. A proposed plant in Pompano Beach sparked an intense public outcry from groups concerned that diesel output, which Enron planned to use as a back-up fuel source for the plant, would be a major source of air pollution. Just last week, Enron withdrew its application to build the plant in Pompano Beach, although the company denied that public resistance was a factor. Instead, Enron says that it has simply chosen to concentrate on building plants in other Florida cities, including Deerfield Beach.

Luckily for Enron, zoning rules in Deerfield Beach, which is less than a mile north of Pompano Beach, put the approval or rejection of the plant solely in the hands of a staff committee instead of an elected body. Due to a complex annexation law in the state, staff members of the Deerfield Beach City Hall (and not elected officials) had the final say on the plant. Thus, there was little opportunity for the public to wage an opposition campaign against the plant and elected officials reportedly had no authority to approve or reject the plant. In addition, Deerfield Beach is zoned primarily for businesses, which arguably makes it a more appropriate location for the new plant than the more residential Pompano
The Deerfield Beach plant is classified as a peaking unit, in that it will only be allowed to generate electricity in times of peak demand within the state. This morning, I spoke with Eric Thode, Enron's spokesperson on the Deerfield Beach plant, and he clarified an important distinction about this proposed facility. As compared with other plants that have had difficulty getting approved in Florida, the Deerfield Beach plant will be a single-cycle unit (as opposed to combined-cycle) that can only operate for 3,500 hours a year. The state's Department of Environmental Protection will regulate the output of this plant once it becomes operational. Further, the power generated during times of peak demand would then be sold only to incumbent utilities in the state. Enron has also agreed to pay the city of Deerfield Beach $1.5 million before construction begins on the plant, and at least $1.7 million in property taxes annually. As with the proposed Pompano Beach plant, Enron plans to use diesel fuel as a backup at the Deerfield Beach plant if natural gas if not available, which remains a concern among local residents.

In addition to the air quality permit, Enron probably will also have to receive water rights and other environmental approvals. Although community groups that oppose the plant did not have an opportunity to voice resistance before the plant was approved by the city's development committee, there will be many subsequent checkpoints at which Enron may face public opposition. In addition, a pending vote on June 26 by the Broward County Commission, which also has jurisdiction over the Deerfield Beach plant area, may approve a one-year moratorium on any new power plants being built in the area. Enron has said that such a moratorium would be illegal.

Enron also wants to build a similar project in South Miami-Dade County, and thus is making a fairly aggressive attempt to establish itself in Florida in anticipation of the state's becoming more competitive. However, Enron is not the only out-of-state energy company attempting to penetrate the Florida wholesale market. For instance, El Paso Corp. wants to build natural-gas power plants in Deerfield Beach and Belle Grande, Fla. In addition, Duke Energy spent three years trying to get approval to build a combined-cycle merchant plant in New Smyrna Beach, Fla. The North Carolina-based energy company recently announced that it is abandoning all attempts to build the plant as a result of bureaucratic and legal hurdles. In addition to legal hurdles, Florida Power Corp., Florida Power & Light and Tampa Electric Company (TECO), the state's incumbent utilities, also aggressively opposed the plant, arguing that a merchant facility in Florida owned by an out-of-state company would not be held to the same market rules as incumbents (thus creating an imbalanced playing field in the state). The final straw for Duke Energy seems to be the fact that, in its latest legislative session, Florida legislators did not overturn the state's prohibition against merchant plants being owned by out-of-state companies.

What was Duke Energy's loss appears to have become Reliant Energy's gain. Reliant Resources, the unregulated wholesale operation that has partially spun off from its parent, announced that it has reached an agreement with the Utilities Commission of New Smyrna Beach to enter into an "exclusive agreement" to continue developing the 500-MW plant that Duke abandoned. Reliant, of course, may face the same restrictions that ultimately dissuaded Duke Energy from pursuing this project. Specifically, Reliant may need to address positioning this plant as a single-cycle unit in order to get approval, or pursue a joint venture contract with an incumbent utility. If Reliant is successful where Duke was not, Reliant will expand upon a generation portfolio in Florida that already includes 619 MW in operation; 1,360 MW under contract; and 460 MW under construction.

Further, Southern Company has formed a partnership with the Orlando (Fla.) Public Utilities Commission (OUC) to build a 633-MW, natural gas generation facility, which happens to mark Southern's first planned expansion outside its traditional service territory. The Florida Public Service Commission has signed off on a Certificate of Need filed by Southern Company, OUC and two other partners—the Kissimmee Utility Authority and Florida Municipal Power Agency. The project now goes
to the Florida Department of Environmental Protection, then to the Florida governor and cabinet for final approvals. As Southern Company has contracted for this plant on the city level, it apparently is absolved from the various state restrictions that have obstructed the plans of Enron and Duke to build new facilities.

One remaining question about Enron’s proposed Deerfield Beach plant concerns the often-tenuous regulation that surrounds peaking units. Although Enron has claimed that the proposed plant will only operate in times of peak usage in Florida, it is unclear exactly how this would be regulated (and by whom). Typically, peaker units are restricted to only operating for a specified number of hours in a year or monitored so that their emissions are limited to a certain level. However, oftentimes plants that are classified as peaker units end up operating beyond the time for which they were originally scheduled. Thus, if Enron’s peaker unit in Deerfield Beach ultimately gains all of the necessary environmental permits, it will be interesting to see how the plant is regulated in a state that has shown resistance toward the expansion of out-of-state generators.

Ironically, public resistance to new power plants in Florida comes at a time when new reports suggest that the state faces an imminent power supply problem. According to representatives from Florida’s Energy 2020 Study Commission, Florida’s electric reserve is significantly less than the 16-percent reserve that incumbent utilities have claimed exists. In fact, the commission has found that, “without extraordinary management techniques including power disruption,” Florida’s reserve is 7 percent. It is important to note that the commission is not including interruptible loads in its reserve calculations. If interruptible load is considered, then Florida most likely does have a roughly 16-percent electric reserve.

Nevertheless, leaders in Florida remain very concerned about any inherent characteristics in the state that might lead to a California scenario. Specifically, the chairman of the 2020 commission stated that Florida has an “over-reliance on interruptible supply contracts with industrial and commercial customers, a high reliance on power from other states and significant restrictions on the development of new power plants.” It is the third factor that is perhaps most concerning in Florida, as presently it is only incumbent utilities that can develop new power supply with comparatively few regulatory restrictions.

Once again, Enron seems to be in the middle of a controversial debate as it pushes the competitive boundaries in a state that is slowly making accommodations for a deregulated market. The mixed bag of public opposition, attempts by incumbent utilities to hold onto their market base, and state legal restrictions may create a bumpy road for Enron (or other out-of-state companies) that attempt to penetrate the Florida market. For now, however, Enron appears to be one step closer to adding Florida to its large market base.

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This message was found to have a Critical Word in it. Message Sent to , From SCIENTECH IssueAlert, CC to , Date 7/11/2001 8:50:23 AM, Subject of message TradeSpark Emerges as Leader in Online Trading, Edges In On EnronOnline

Word(s) found: Enron

-----Original Message-----
From: SCIENTECH IssueAlert
Sent: 7/11/2001 8:50:23 AM
Received: 7/11/2001 2:49:47 PM
To:
CC:
Subject: TradeSpark Emerges as Leader in Online Trading, Edges In On EnronOnline
Body:

----- End of message body

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**SCIENTECH**

**IssueAlert.**

**July 11, 2001**

TradeSpark Emerges as Leader in Online Trading,
Edges In On EnronOnline

By Will McNamara
Director, Electric Industry Analysis

[News item from Reuters] Online energy marketplace TradeSpark said on July 10 that it traded products with a notional value of $41.9 billion in the second quarter of this year, up from $18 billion in the first quarter. The rise in the second quarter brought the total transaction value since TradeSpark's October 2000 launch to $71 billion. According to TradeSpark, during the second quarter the system was used to trade over 6.8 billion MMBTU's of natural gas instruments, with a notional value of over $33 billion, a rise of 189 percent over the first quarter. It was also used to trade about 155-million megawatt hours of electricity instruments, with a notional value of some $8.2 billion, a rise of 29 percent over the first quarter.

Analysis: As we have now reached the mid-year point, it is a good time to take a step back and assess how the online energy trading market is being repositioned. EnronOnline, which launched in August 1999, certainly has been the market leader since that time, but TradeSpark (on the basis of its strong performance and one key distinguishing feature that sets it apart from Enron) has emerged as a formidable player this year. In fact, 2001 could very well become the year that TradeSpark inches ever closer to EnronOnline, closing the gap in what has become a highly saturated market. The online trading space is prone to rapid consolidation and many players that emerged over the last year have found it a daunting challenge to establish liquidity. However, other players (and TradeSpark is part of this group) have taken full advantage of market volatility, the high cost of natural gas that was common earlier this year, and the ongoing advances in Internet technology to forge ahead with a promising new business model.

For background, TradeSpark was formed in September 2000 by trading systems developer eSpeed, Inc. (Nasdaq: ESPD), brokerage Cantor Fitzgerald and several energy companies, including Dominion Resources (NYSE: D), TXU Corp. (NYSE: TXU), Williams Cos. (NYSE: WMB), Koch Energy Trading, and Royal Dutch / Shell unit Coral Energy. eSpeed has an equity stake in the TradeSpark partnership. Through this equity stake, eSpeed is able to share in all potential upside value of TradeSpark, based on an initial investment in the exchange of $2 million cash, representing a 5-percent equity stake in the exchange. TradeSpark is creating one large liquidity pool by bringing together several mediums, including the Internet, voice brokering and eSpeed's 300 millisecond private global network.

The affiliation with eSpeed was particularly important as TradeSpark did not have to construct a trading infrastructure, as it adopted the one that had already been put into place by eSpeed. This allowed TradeSpark to enter the market earlier than many of its subsequent competitors and gain an important first-strike advantage. The exchange offers trader services such as real-time prices for commodities, maturities, delivery points, and other benchmarks of the market. eSpeed, an independent trading company that spun off from Cantor Fitzgerald in 1999, provides the technology infrastructure that supports the TradeSpark exchange, along with supporting other multiple buyer / multiple seller electronic marketplaces. eSpeed is an end-to-end electronic trading system that can accommodate up to 150 transactions per second, per instrument, with an as-mentioned 300-millisecond execution time. The customizable system displays all prices on the system anonymously to all market participants. Note that even before the partnership with TradeSpark, eSpeed had received investments of $25 million each from Dynegy and Williams to develop at least four new commodity-specific electronic spot and futures trading marketplaces.
However, it is clearly Enron that blazed the trail for online energy trading and remains the king of this market. As of the end of 2000, Enron had traded $336 billion worth of commodities on EnronOnline, led by electricity and natural gas (Enron also trades other commodities such as bandwidth and paper). As of late June, it has been reported that the notional value of all transactions on EnronOnline exceeded $650 billion, and the exchange’s daily volume has soared to about 5,000 trades. Yet, while Enron may still be the largest online energy exchange, TradeSpark’s recent growth is quite impressive, especially considering that EnronOnline had a one-year jumpstart on all the other trading exchanges that subsequently formed. TradeSpark maintains that it has transacted $30 billion worth of energy products (notional value) since its October 2000 launch. Further, the dollar amount traded on the exchange has grown steadily, from $12 billion in 4Q 2000 to $18 billion in 1Q 2001. Obviously, there is still a huge gulf in notional transactions that separates EnronOnline from TradeSpark, but among the list of other trading exchanges (such as Intercontinental Exchange, Dynegydirect and HoustonStreet) TradeSpark appears to be the one that shows real potential of becoming a true competitor to EnronOnline.

In any comparison of the two exchanges, it is important to establish the key element that makes TradeSpark unique from EnronOnline. TradeSpark is a multi-buyer / multi-seller trading exchange that offers anonymous bidding to an open market of traders. EnronOnline, on the other hand, is a proprietary trading exchange. In other words, in every transaction that takes place on EnronOnline, Enron participates as either a buyer or a seller. TradeSpark says that about 54 percent of its average daily transactions originate from activity between non-partners (companies that were not original founders of the exchange). This statement indicates that liquidity is growing at a steady pace on the TradeSpark exchange. While the majority of TradeSpark’s traders appear to be non-partner members, it is important to note that the founding members mentioned above receive incentive payments in the form of warrants if TradeSpark is successful. In other words, should TradeSpark hit $250 million in revenue by its fifth year, eSpeed would make available 8 million warrants at a strike price of $27.94 to the founding members of TradeSpark. Thus, the founding members are more inclined to participate on the exchange, which in turn sparks interest from other participants and increases TradeSpark’s liquidity.

The neutrality issue is arguably the most important distinguishing feature between EnronOnline and TradeSpark, and could be the one factor that is presently driving TradeSpark’s success. Many traders who participate on various exchanges have expressed a preference for those marketplaces that offer multiple buyers and sellers. As is the case with EnronOnline, when a trader knows that a particular company is always a participant as a buyer or a seller in every transaction on their exchange, some trading companies may be hesitant to reveal strategic information to the exchange-owning company. In addition, regulatory pressures from the Federal Trade Commission may eventually make neutrality a requirement, which is something that exchanges such as EnronOnline may have to address and exchanges such as TradeSpark have already incorporated. When given a choice over various trading exchanges on which to participate, my general impression is that traders would prefer to participate on an exchange where issues of disclosing competitive information are not a concern.

I also think it significant that the bulk of TradeSpark’s trading volume is coming out of the natural-gas business. While the exchange focuses on both natural gas and electricity instruments, in 2Q 2001, TradeSpark’s average natural-gas trading volumes increased from 100 million MMBTU’s to a trading high of 406 million MMBTU’s on June 7, 2001. Further, TradeSpark has experienced a 90-percent increase in the amount of natural-gas MMBTU’s traded on the exchange, while the level of electricity megawatt hours has increased by 17 percent. During the 1Q 2001 period, TradeSpark traded more than 2.18-billion MMBTU’s of natural gas instruments (a notional value of about $11.6 billion) and 120-million MWhrs of electricity instruments (a notional value of about $6.4 billion).

As a whole, the online trading market appears to be riding the wave of a major growth spurt. A study conducted by AMR Research showed that 600 energy trading exchanges existed in April 2000. This
number grew to 1,500 by September 2001. A separate report conducted by Forrester Research indicates that online trading in wholesale markets increased 750 percent from 1999 to 2000. The same report projects that online trading volume will continue to grow, leaping from $400-billion market in 2000 to a $3.6-trillion market in 2005.

Of course, not all of these exchanges are expected to be successful. In fact, the vast majority of them will probably shut down or be forced to merge with another partner to ensure survival. As consolidation continues within the online trading space, most projections suggest that two primary kinds of exchanges will remain active. One of these exchanges is likely to be a liquidity hub that attempts to attract members that want to exchange price risk in pure commodities, which is represented by EnronOnline, DynegyDirect, etc. The other exchange that will survive will probably be a merchant platform that attempts to bring multiple market players together, which is represented by TradeSpark, HoustonStreet, Intercontinental Exchange, and others.

The primary challenge for all online trading exchanges is to establish liquidity. What traders appear to want and what makes an exchange successful is liquidity, meaning essentially the amount of transactions on the exchange and, consequently, the opportunity to access beneficial deals. TradeSpark’s model has been unique due to the rush-to-market capability that the alliance with eSpeed supported, and also the incentive program among its founding members, which apparently has played a role in increasing participation on the exchange. The remaining half of this year should be fertile ground for TradeSpark to exhibit continued growth. However, as consolidation continues to remain an undercurrent in the online trading market, it is still rather premature to project which exchanges will remain in operation once the dust settles.

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Word(s) found: Enron

-----Original Message-----
From: SCIENTECH IssueAlert
Sent: 7/16/2001 8:39:20 AM
Received: 7/16/2001 2:32:34 PM
To:
CC: 
Subject: Enron Rebounds in Second Quarter, But Still Faces Several Hurdles

Body:

------ End of message body

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**Scientech Issue Alert**
July 16, 2001

Enron Rebounds in Second Quarter,
But Still Faces Several Hurdles

By Will McNamara
Director, Electric Industry Analysis

[News item from PR Newswire] Enron Corp. announced today a 32-percent increase in diluted earnings per share to $0.45 for the second quarter of 2001 from $0.34 a year ago. Strong results in the quarter include a 40-percent increase in net income to $404 million. Enron also announced both confidence in achieving $1.80 of recurring earnings per diluted share for the full year 2001 and new guidance for 2002 of $2.15 per diluted share.

Analysis: Enron's strong 2Q earnings report is good news for the company, considering that 2001 has not gotten off to the best start for several of its key operational areas. For several weeks, Wall Street has been pondering the question of what has caused Enron's stock to hit its lowest level in 18 months (plunging approximately 40 percent since January 2001). Granted, Enron is a company with a market capitalization of $36 billion, current assets in the range of $7.3 billion and reportedly $288 million in cash, so any previous drop in its performance must be taken in that context. However, for a company that is generally considered to be the largest natural-gas and electricity trader in the world, and one that sparks international awe for what has been (with few exceptions) a Midas touch, any indication that Enron may be faltering even slightly is grounds for industry analysis. Thus, Jeffrey Skilling, Enron's CEO, is taking full advantage of the company's better-than-expected performance in the second quarter to reassure investors that Enron is once again on track. Nevertheless, the company continues to face significant obstacles in five key areas (outlined below), and some analysts claim that Enron's fall is far from over.

Without a doubt, Enron's 2Q numbers are impressive. The 2Q income of $404 million, or 45 cents a share, represents a 40-percent increase from the same quarter in 2000. However, it is important to note that Enron's marketing and trading enterprise kept the company in a financially strong position and offset losses that occurred in other areas of the company. In fact, the vast majority of Enron's profits (97 percent, to be exact) are coming from the company's wholesale services division, which includes its trading unit. Although the wholesale trading unit's revenue of $48.48 billion was basically flat with 1Q 2001 revenue of $48.51 billion, it was up 204 percent from 2000 levels. In addition, the company's wholesale business reported 2Q operating earnings of $802 million, up 6 percent from the previous quarter and 93 percent above 2Q 2000. Further, Enron's natural-gas volumes increased by 9 percent and electricity-trading volumes increased by 71 percent in the second quarter. European trading operations are also booming, with Enron's power volumes nearly quintupling to 73 million megawatt-hours across the Continent.

It seems fairly obvious that the wholesale trading business takes the credit for the company's strong financial performance in the second quarter, and without the heavy reliance on this business Enron probably would not have exceeded analysts' expectations. However, some analysts fear that Enron's heavy reliance on wholesale trading could compromise 3Q 2001 results, considering the combination of possible softening demand, dropping market prices for energy and the belief that the California energy crisis has peaked. Thus, Enron has invested large sums of money in more diversified businesses over the last year or two and currently remains entangled in several operations that could quickly become anchors around the company's ankle. In other words, although Enron continues to make attempts to diversify beyond its electric- and natural gas-trading core, it faces obstacles in the following areas:

Bandwidth: Enron Broadband Services, a wholly owned subsidiary of Enron Corp. that launched last year to focus on bandwidth and telecommunications infrastructure, has clearly become the dark cloud
that is hovering over the company. Ironically, it was this business that contributed to the dramatic increase in Enron's stock value last summer. At that time, Enron claimed to have a large number of potential deals in the pipeline for its telecommunications business and, based on this optimism, Wall Street inflated Enron shares by as much as 75 percent (causing the company's stock to hit a peak of $90 in August 2000). However, in 2Q 2001, Enron's broadband business reported a $102 million operating loss, compared to an average loss of just $24 million for the four previous quarters. Further, Skilling has openly acknowledged that revenue opportunities in the company's broadband unit have "dried up." Basically, Enron is facing an unanticipated excess of fiber-optic lines, which has prevented the demand for the division's services from materializing as anticipated. Last week, Enron announced that further cutbacks would take place in the Portland, Ore., office of Enron Broadband Services, including the elimination of 100 jobs (250 positions were cut last April). Moving forward, Enron Broadband Services will focus exclusively on two key areas: bandwidth trading and package services for business customers (which would basically include the delivery of data and entertainment through fiber-optics). Skilling remains optimistic that the business will become profitable, but that it may be a year or two before that occurs.

India: For background on what has become an international debacle for Enron, see the 5/22/01 IssueAlert (available at www.scientech.com/rci). In essence, Enron has been attempting to end a contract for power delivery to the state of Maharashtra, India, which it has served for about six years, in response to the government's discontinuation of payment. In the mid-1990s, Enron broke ground on a 2,184-MW, natural gas-fired project on India's western coast (near Bombay, which is the capital of Maharashtra). The plant is in the midst of its first operational phase (with 750 MW up and running) and was scheduled to begin its second phase (1,444 MW) in June. However, problems began to surface over the last six months or so, heightened by Maharashtra's recent default on payments to Enron. The Maharashtra government claimed that Dabhol Power, an Enron subsidiary that oversees the power contract in India, is overcharging for power. Other companies such as AES are now attempting to take over the contract between Enron and the Maharashtra government. However, at last count, the state government owes Enron approximately $48 million for power transactions completed last December and January, and could owe $607 million if the contract is terminated.

California: Enron's problems in California have been well documented, as the company has been singled out (along with other power suppliers) by the state's governor and federal regulators for possible price gouging. Along with new price controls, possible refunds for past power sales and decreased demand in the state, Enron also faces several pending lawsuits related to its California business. At present, Enron and other companies await a ruling from FERC regarding the specific amount that power suppliers may collectively owe back to the state of California. Gov. Gray Davis has demanded $8.9 billion and vows to take the case to federal court if FERC issues refunds of less than that amount. In addition, the California Senate is deliberating over whether Enron should be held in contempt of court regarding its refusal to supply confidential business documents as required by subpoena.

Water: Azurix, Inc., Enron's global water company that is primarily engaged in the business of owning, operating and managing water and wastewater assets, has been losing money since its formation in 1998. Most recently, in 2Q 2001, Enron reported a loss of $109 million in its "corporate and other" businesses, which includes Azurix and other non-core businesses. This followed an even-worse performance for year-end 2000, which included a 4Q 2000 loss of $470 million that Azurix took for failing to negotiate customer rates as part of a water-services contract in Argentina. Since last fall, Enron has been attempting a buy-out of Azurix in an effort to make the company a private entity once again. Nevertheless, Enron continues to bear the burden for Azurix's struggles, which many attribute to Enron's overly optimistic view of how quickly privatized water markets would materialize.

Florida Merchant Plants: Enron has attempted to penetrate Florida's $13-billion electric market with
the construction of unregulated merchant plants in the state. Zoning rules and community resistance have at times made this market penetration very difficult for Enron, and its reputation has arguably taken a beating in the state. As it stands presently, Enron has received approval from Deerfield Beach, Fla., to build a 510-MW plant, single-cycle unit (as opposed to combined-cycle) that can only operate for 3,500 hours a year. This approval followed previous plans to build a similar plant in Pompano Beach, Fla., which Enron abandoned amidst fierce community opposition. (Note that a county moratorium on new plant construction, which Enron plans to contest, may thwart the Deerfield Beach project.) I've included this business as a challenge for Enron because, once again, the company seems to be in the middle of a controversial debate as it pushes the competitive boundaries in a state that is slowly making accommodations for a deregulated market. The mixed bag of public opposition, attempts by incumbent utilities to hold onto their market base, and state legal restrictions may create a bumpy road for Enron (or other out-of-state companies) that attempt to penetrate the Florida market. For now, however, Enron appears to be one step closer to adding Florida to its large market base.

Moreover, regarding its stock price, as noted Enron shares hit a peak value of $90.56 in August 2000. However, in the first six months of 2000, the company's stock has dropped considerably. Since the close of the second quarter, the stock has been hovering near $49. As of early morning trading on July 16, Enron shares were priced at about $48.78. The losses in its broadband unit must be particularly painful for Enron as the company continues to position itself as more than just an energy-focused investment bank. In the midst of ongoing criticism that its shares are overpriced, Enron continues to shape itself into an Internet-based, multi-commodity-focused firm. However, Enron is not like most other companies that have plunged into the telecommunications and water arenas only to take a damaging hit. Never forget that Enron has some of the deepest pockets within the energy space, and few of its missteps have caused any long-term damage.

Nevertheless, it remains clear that wholesale power trading is where the company finds its bread and butter, and thus no matter how Enron may perceive itself, investors still see it as primarily an energy company (albeit, a unique one). That, ironically, is good news for Enron as the company is now trading consistently high within the range of other energy traders. Excluding the broadband business, Enron has a multiple of between 25 and 28 times next year's earnings, which is higher than other energy competitors such as Dynegy (which trades for about 23 times next year's forecast) and Duke Energy (which trades between 13 to 15 times projected earnings). The remaining question is whether or not Enron is an overvalued stock. With diversified operations in telecom, water and the host of other commodities the company has pursued, the answer may have been that Enron was valued appropriately. However, now that these businesses are struggling and most of the company's focus is built around the trading market, the future of which is uncertain, investors will most likely continue to carefully examine Enron's future growth potential.

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