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NEWS RELEASE

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COMMISSION EXPECTS JUMP IN CALIFORNIA ENERGY REFUNDS

The Federal Energy Regulatory Commission took action today that it expects will increase the amount of refunds in connection with California's energy crisis of 2000 and 2001. The refunds would cover the period from October 2, 2000, through June 20, 2001.

Chairman Pat Wood, III commented: "This Commission is acting to ensure that customers pay just and reasonable prices. Today's actions represent important progress toward a just resolution of these matters for both customers and the industry. It is time to bring this crisis to a close."

The increase, yet to be calculated, is expected to be greater than the $1.8 billion total estimated by a FERC administrative law judge last December. The Commission's refund order adopts most of the presiding judge's findings.

The Commission embraced a staff recommendation that a different set of gas prices be used to calculate refunds. The new pricing methodology, based on gas prices for producing basins plus transportation, was largely explained in Staff's Initial Report released in August 2002, and was finalized in a final staff report on western markets issued today (Docket No. PA02-2-000). It would eliminate distortions in gas index prices caused by manipulation in the southern California market. The Commission also adopts a staff recommendation to ensure that generators recover their spot gas costs over the refund period.

Because the gas price proxy values will be lower than the index prices used by the judge in the refund case, estimated energy costs will be smaller and refunds will be larger.

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The Commission said the new gas price proxy strikes a balance between protecting customers from prices based on manipulation and dysfunction, and protecting suppliers' incentives to compete in the California energy market. The new method determines the Mitigated Market Clearing Price (MMCP) using a formula based on the generator's incremental heat rate multiplied by the producing-area gas price index plus an allowance for transportation costs. The producer area index plus transportation allowance to California serves as a proxy for competitively derived gas prices in California. To the degree that generators paid more for gas, the cost of that gas will be taken out of the refund calculation.

However, the Commission indicated that it will defer until after the 30-day period allowed for rehearing of today's order the requirement for the California Independent System Operator (CAISO) and the California Power Exchange to calculate revised MMCPs and refunds using the new gas price proxy. Thus, the total size of the refund will not be known for several more weeks.

Administrative Law Judge Bruce L. Birchman calculated that refunds from generators and marketers should equal $1.8 billion. However, because suppliers to the CAISO and PX were still owed $3 billion for unpaid energy, California's utilities still owed a net $1.2 billion after the refunds period. The $1.8 billion refund the judge calculated offset by nearly two-thirds the outstanding amount owed. To reach these findings, the judge followed the Commission's instructions in using daily gas prices from three publications for California delivery points. This linked refunds to manipulated gas index prices, which staff has now shown to be inappropriate for purposes of calculating refunds in this proceeding.

The Commission for the most part adopted the judge's other findings, which are not affected by a change in the gas price used to calculate refunds.

Today's staff report provides extensive information on various techniques of alleged market manipulation employed by entities in the western electric and natural gas markets. The report also contains information on spot market transactions data that is compared to the underlying cost inputs.

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