

Transmission: Regulatory Reforms and New Projects

The year 2002 brings with it a host of new trends, including rampant project divestitures, eagle-eyed portfolio and earnings management and energy purchasing, a heightened call for transmission regulatory reforms, and new transmission projects. With the balance sheets of large companies under increased scrutiny and CFO's making major decisions to clean up on and off balance sheet items, it is clear that the industry's recent emphasis on greenfield development has been replaced by liquidity concerns and lower forward curve projections. If all goes as expected, this should clearly be the year of mergers and acquisitions. Key executive skills required during this period are patience, a counter cyclical investment strategy, and the ability to recognize and improve undervalued assets.

Jim Schretter is president and founder of Beacon Energy LLC, a preeminent energy consulting firm. He has 20 years of experience in wholesale energy markets as a partner in leading energy consulting firms. Beacon Energy specializes in providing due diligence support for project acquisitions, power and fuel forecasting, transmission regulatory and business support, business strategy development and project management. Since forming the company in 1997, Mr. Schretter has helped many of today's largest energy companies deal with changing business strategies, the creation of new assets, and the sale of existing assets. "Beacon Energy has provided industry leadership by serving as a catalyst to form the Council for Competitive Transmission and the Capital Area Energy Association, helping clients create new gas and coal fired generating assets, publishing our widely read Beacon Energy's Spotlight newsletter, and performing customized energy consulting assignments." said Mr. Schretter. He added, "Beacon Energy's 30% per year growth has been fueled by strong business relationships and the ability to consistently add value to wholesale energy situations. Beacon Energy is unique in the ability to provide strategic insights and implement transactional solutions."

During the past year, Beacon Energy led the development of six large coal fired generation asset projects, four gas fired peaking projects, several new pipeline projects, multiple due diligence acquisition assignments, and a wide variety of strategic planning and energy forecasting engagements. The firm provided proprietary forecasts for project developers and lenders, negotiated power purchase contracts, and obtained electric and gas transmission and fuel supply for projects. In addition to building proprietary forecasting models, Beacon Energy participated in the market through power sale RFPs and transactional activities. Beacon Energy supported new transmission projects in constrained market areas, performed gas and power contracting due diligence on project acquisitions, and participated in new greenfield development in the west, southeast and internationally.

In addition to performing consulting assignments in 2001, Beacon Energy contributed capital to new coal fired generation assets. "New clean coal generating technology is a fundamentally strong long-term investment. A balanced generation portfolio is needed in the U.S. to help consumers obtain a reliable low cost solution to our energy needs. Strategically, our country is dependent on oil and natural gas, however, our international political independence can be strengthened if the U.S. continues to become innovative with clean coal and other technologies," said Mr. Schretter.

In terms of forward transactional pricing, Mr. Schretter commented, "Another challenge confronting the industry are the current low forward curves for electric power. If these forward curves reliably predicted the future, they would not be a problem. However, many trading shops are using forward transaction curves that do not reflect long-term fundamentals but are conservative transactional points. In this regard, they are wise benchmarks. Unfortunately, they tend to understate the opportunities in the market and stifle long-term solutions."

As all veteran energy players know, the industry works in cycles. Mr. Schretter believes that the low gas prices of 2002 will be replaced by substantially higher prices in the 2004 timeframe, and that a similar scenario will hold true for power prices. Investing in counter cyclical trends is extremely difficult, but Schretter believes that investors need to move away from the herd, conduct analytically rigorous analysis, and invest in fundamentally strong areas. It takes a strong positive attitude, thorough research and analysis, and a great deal of determination to make wise counter cyclical investments.

The Federal Energy Regulatory Commission (FERC) and Congress have recognized that the electric transmission arena has not been receiving adequate investment and improvement. To foster more investment, Beacon Energy and Mr. Schretter has been instrumental in working with leading energy companies to form a new industry coalition to advance a more competitive electric transmission marketplace. The reaction to the group has been strong among industry participants and in regulatory and legislative circles. According to Mr. Schretter, "Beacon Energy is proud to maintain a focus on important areas within the energy business and design solutions that add real value to the industry and our client positions."