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## **Electric Retailer's Default Pushes Texas Into Action**

By **REBECCA SMITH**

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A third electricity retailer defaulted on its obligations in Texas, slammed by a deregulated market that continues to be roiled by extremely high -- and so far, unexplained -- wholesale power prices.

Fearing that soaring costs could destabilize more companies, the state's grid operator is taking steps to change some market rules, possibly in an emergency board meeting on Friday.

In the past month, wholesale prices in Texas have reached or exceeded a bid cap of \$2,250 a megawatt hour on 14 days. The Texas bid cap is the highest in the nation.

Wednesday, the state's grid operator, the Electric Reliability Council of Texas, said Hwy 3 MPH LLC, operating under the name Etricity, defaulted on its obligations. Its 12,222 customers are being transferred to other companies, officials said. In the past couple of weeks, two other small companies -- National Power Co. and Pre-Buy Electric LLC -- have defaulted, causing dislocations for 30,000 customers of the three companies.

In Texas, businesses and individuals can buy power from dozens of suppliers that purchase electricity from generators or through daily auctions run by the Electric Reliability Council of Texas. Officials fear that other electricity retailers may also face problems if prices don't drop. Initially, spikes were in the last-minute "balancing" market, but they have since spilled over into other markets.

The grid operator hasn't yet released a calculation of the total cost of the price spikes, but the highest prices the past three days were \$3,536 a megawatt hour for portions of Sunday, \$2,255 on Monday, and \$2,270 on Tuesday. If many firms are unable to meet their obligations and default on payments owed to suppliers, those costs likely would be spread among other suppliers, adding to their pain and possibly causing a chain reaction.

Not everyone is distressed at the high prices. David Hernandez, chief executive of Liberty Power Corp., a retailer, said price spikes "give us an opportunity to shake off marginal players" that aren't well capitalized. "We're OK because we hedge" our energy costs, he said.

An official with the market-monitoring unit at the Texas Public Utility Commission said a proposed market rule change would allow the grid operator to pay high prices to fewer generators -- those whose output was needed most -- rather than pay high prices across entire zones.