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Orlando Sentinel

Gates-led power-unit bankruptcy may revive Texas electric debate

Reuters

11:39 PM EST, February 12, 2014

* Optim cites depressed power prices for bankruptcy filing

* Generators, regulators at odds over proposed market reform

* Changes, once seen urgent, stall after recent studies

By Eileen O'Grady

HOUSTON, Feb 12 (Reuters) - As the debate over the future of Texas's $35 billion electricity market enters a third year with no end in sight, one independent power producer decided not to wait for an outcome, filing for bankruptcy on Wednesday, citing depressed market conditions.

Optim Energy LLC, a power generator owned by Bill Gates' Cascade Investments fund, filed for Chapter 11 bankruptcy in Wilmington, Delaware.

"The current depressed economic environment of the electric power industry - particularly with respect to coal-fired plants - and the debtors' liquidity constraints have resulted in continuing losses that, simply put, have left the debtors without alternatives," Nick Rahn, Optim's chief executive, said in court papers.

Optim owns three Texas power plants: Twin Oaks, a 305-megawatt coal-fired plant; the 600-MW Altura natural gas-fired power plant and an interest in the 550-MW Cedar Bayou gas plant, both near Houston.

The plants are expected to continue to operate as Optim works to restructure its debt.

Optim's filing, and the ongoing financial restructuring at Energy Future Holdings, parent of Texas' largest power producer, may rekindle a sense of urgency in a debate that has waned in recent weeks with the release of two new studies.

Electricity use in Texas has been growing faster than generation is being built, shrinking the reserve margin, or cushion of surplus power needed to avoid rolling outages when supplies are strained, grid operator ERCOT has warned.

A number of proposed new power plants have been scrapped or delayed because low wholesale prices make it impossible to get financing, power-plant owners say.

Many generators want regulators to create a so-called 'capacity market', where generators and others are paid for power to be available in future years, to encourage construction of new plants.

Some key lawmakers, refinery operators and large retailers, oppose the change, arguing it will raise power prices too much.

DIFFERENCES WIDENING

A recent report from the Brattle Group, ordered by the Texas Public Utility Commission (PUC), said a capacity market would likely raise customer rates by $1 or $2 per month over the long term, much less than critics have argued.

That report, along with the grid operator's lower forecasts for annual electric demand growth, has only widened the differences between the parties. Even the three-member PUC is divided over how to address the issue.

"I'm not sure why the debate continues with that minimum of a cost to achieve the standard of reliability that every other state has," said John Ragan, president of the Gulf Coast region for NRG Energy, Texas' second-largest power generator.

Not everyone sees it that way.

"This report helps put to rest the forecasts from electric generators who argue that blackouts are just around the corner unless they extract expensive subsidies from ratepayers," said Randy Moravec of the Texas Coalition for Affordable Power.

The new reports have further convinced PUC member Kenneth Anderson that the current Texas market is functioning "reasonably well" and will have sufficient electric resources until the end of the decade.

It's unclear whether any proposed new generating facilities will move forward without market reform.

The Texas Public Policy Foundation, a conservative Austin-based think tank, said pending applications are proof that generators don't need the capacity market "subsidy."

In a regulatory filing, the group said NRG's plan to build 300 MW of quick-start generation shows the company "expects the market to work well enough to make a profit".

NRG spokesman Dave Knox called the foundation's filing "misleading", saying the project is only possible because NRG wants to move used turbines to Houston to a shuttered power plant site near existing transmission infrastructure.

"The fact that we have to make as much of an effort to make this economically viable shows how bad the situation is in ERCOT," said Knox.

Major power producers in Texas include Luminant, a unit of Energy Future Holdings - owned by Kohlberg Kravis Roberts & Co LP, NRG Energy, Calpine Corp, NextEra Energy and Exelon Corp.