Commodities
Electricity Prices Fall on California Energy Crisis
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NEW YORK -- Electricity prices fell, showing the effect of conservation in California, reduced industrial usage and a federal regulatory order that appears to be rationalizing the market.

Declining prices for natural gas and an expected easing of environmental regulations also have pushed summer power prices lower in the West.

Third-quarter supply contracts at Palo Verde, Ariz. -- a major transmission hub that feeds into California -- traded at $275 a megawatt-hour yesterday, down from $294 Wednesday and a high on April 11 of $590. Prices for power at a key northwest hub fell $20 yesterday to $155, which is also about 50% of its historic high.

"I think there was some underestimation of the potential for conservation. And, as much criticism as the Federal **Energy** Regulatory Commission has gotten for its April order for not doing enough, I'm not so sure that's fair. We could be seeing the first impact of it," said Aaron Thomas, a manager for AES Corp.'s western U.S. division, which owns several merchant power plants in California.

Mr. Thomas noted that northern California appeared likely to avoid blackouts yesterday despite temperatures of 100 degrees Fahrenheit.

The FERC's order, which has been criticized by California Gov. Gray Davis as completely inadequate, requires that merchant generators offer all unsold capacity to the state during electricity emergencies. As a result, the companies have been selling capacity in the forward markets since the order came out April 26 to reduce regulated, cost-based sales during much of the summer, Mr. Thomas and several power traders said.

The Davis administration, however, isn't convinced.

"If that's the case, so far so good, but there are so many loopholes in that order the jury is still out," said Gov. Davis' spokesman, Steven Maviglio.

Voluntary conservation efforts in the state cut power usage 9% from where it was projected to be in March and April. Residential and business customers of the state's three investor-owned utilities haven't yet received bills under the new 30% rate increase, so more conservation is expected. Utilities will start mailing the first bills with the new rates today, and those bills will include retroactive charges for April.

In the Northwest, conservation has been mixed with the voluntary relinquishing of supplies by companies that switched to market-based rates years ago and saw their electricity costs skyrocket starting last June.

"Virtually all of the aluminum and titanium production and half the magnesium has shut. That's 3,000 megawatts of load, and we've lost a lead smelter, chemical mill and paper mills," said Portland-based utility consultant **Robert McCullough**.

The power price decline also has hit summer contracts in New England, which have fallen to $75 a megawatt-hour from a high of $100 six weeks ago, for many of the same reasons.

In other commodity markets:

COCOA: Futures fell close to a four-and-a-half-month low on the Coffee, Sugar and Cocoa Exchange after news that London International Financial Futures and Options Exchange was regrading some cocoa for possible delivery against its contracts. The CSCE July contract fell $28 to $936 a metric ton. Traders said Liffe's decision to regrade the cocoa, which had been deemed nontenderable because of residue or foreign matter, will boost its availability in the near term. Other participants also blamed crop-beneficial weather in West Africa for the selloff.

SOYBEANS: Futures surged at the Chicago Board of Trade on aggressive buying by speculators, commercial participants and local traders triggered by technical factors, traders said. The July contract leapt 13.4 cents to $4.51 a bushel. The contract surged to break the key $4.50 resistance level minutes before the closing bell.