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Energy Project Slowdown May Cause Power Shortages (Update3)

By Liz Skinner

Washington, March 19 (Bloomberg) -- California and other states may run short of electricity in the next few years because billions of dollars of power-plant projects were canceled in recent months, the top U.S. energy regulator said.

"We're going to come roaring out of the recession," Federal Energy Regulatory Commission Chairman Pat Wood said earlier this month. "We're going to need the power plants" that companies are now shelving, he said.

Calpine Corp., AES Corp., Mirant Corp. and other power-plant developers have canceled projects to improve their balance sheets after Enron Corp.'s collapse eroded investor confidence in the industry. Falling power prices also have cut the incentive to build new generation, and states that have deregulated power markets can no longer require plants be built to meet demand.

Wood and other regulators are especially worried about possible shortages in California, where millions of residents during the first half of 2001 lost power over six days of blackouts. The California Energy Commission recently reduced its estimate of future generating capacity as a result of some canceled projects.

The state commission forecast that 9,900 megawatts of capacity will be added by 2004, about a third of its prediction five months earlier, said Bryan Craig, a manager with the FERC market-development division. A megawatt of electricity can power 750 average California homes.

Demand Growth

Growth in generating capacity is slowing just as the U.S. economy shows signs of ending a recession that began in March 2001, which may mean a jump in demand for electricity.

Federal Reserve Chairman Alan Greenspan said on March 7 that "recent evidence increasingly suggests that an economic expansion is already well under way," and Merrill Lynch & Co. and Salomon Smith Barney Inc. yesterday boosted their growth forecasts for the U.S. economy.

Power demand in California may outstrip supplies beyond 2003 if more projects are canceled, energy conservation declines and if economic growth outpaces projections, according to an analysis by the Federal Energy Regulatory Commission staff.

"No matter what you do, you can't overcome a demand-supply imbalance," Commissioner Nora Brownell said.

The state energy commission didn't return calls for comment.

San Jose, California-based Calpine has delayed construction

of 34 power plants to save cash and bolster its balance sheet. Calpine executives agree with Wood that the U.S. will need power from projects now on hold or canceled.

Interest in backing power projects will soar as the nation pulls out of a recession, power demand surges and electricity prices rise, said Ron Walter, Calpine founder and senior vice president.

Waiting for 'Signals'

"We are trying to maintain flexibility so once we get the appropriate signals to move forward with the plants, we can," Walter said. The company is still seeking permits for its delayed plants, many of which would provide California with power, though it won't build them until market conditions change, he said.

New York and the New England states also face possible power shortages, Walter said.

Calpine sells power in 29 U.S. states, three provinces in Canada and in the U.K. About 25 percent of Calpine's power-generating capacity is in California and neighboring states.

The company almost doubled its generating capacity in the past year to 11,100 megawatts. Calpine had planned to have as much as 70,000 megawatts of generation by 2006. It put projects totaling 15,100 megawatts on hold and now expects to have 26,300 megawatts by the end of 2003.

California Shortages

California faced shortages and soaring power prices last year, which led U.S. energy regulators to impose price controls on the state's electricity market in April and other Western markets in June. Those price caps are set to expire in September.

California regulators raised consumer power rates twice last year, with some customers seeing increases of more than 50 percent on their electric bills.

"At the end of the day, the customer pays for it," Wood said.

The average price of electricity at the California-Oregon border last month was \$23.28 a megawatt-hour, down from \$287.35 a year earlier.

The U.S. energy commission also is looking at the impact power-plant cancellations may have in the Midwest and other regions, Craig said.

Calpine's shares rose 38 cents, or 2.9 percent, to \$13.75. The share price has almost doubled from Feb. 27, when Greenspan told Congress the U.S. economy is "close to a turning point."

Mirant gained 54 cents, or 4.1 percent, to \$13.80 a share, and AES stock rose 37 cents, or 4.2 percent, to \$9.17. The shares of the two companies were down

53 percent and 80 percent, respectively, from a year ago.