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State Reworks Deals With 5 Power Firms

■ Electricity: Changes in contracts signed during crisis are expected to cut costs by \$3.5 billion over t next decade.

By TIM REITERMAN and VIRGINIA ELLIS, TIMES STAFF WRITERS

SAN FRANCISCO -- California officials announced Monday that they have renegotiated \$15-billion worth of the state's much-maligned power contracts, trimming the costs by \$3.5 billion over the next decade.

After five months of talks, officials said they restructured agreements with five of the two dozen companies that signed long-term power pacts with the state at the height of the energy crisis a year ago. And they called on other generators to come to the table and reach similar agreements or face a legal fusillade.

"One way or other we're going after these people," Barry Goode, legal affairs director for Gov. Gray Davis, told a news conference held by the state's leading energy officials. By settling with the state, Calpine Corp. of San Jose and High Desert Power Plant LLC, a subsidiary of Constellation Energy Group of Baltimore, extricated themselves from the uncertainty of state legal action.

As part of the deal, the state Public Utilities Commission voted 5-0 to drop a complaint asking federal regulators to declare the contracts illegal on grounds that the companies manipulated the electricity market. And the state attorney general reached an \$8.5-million settlement with the companies in the state's ongoing investigation into electricity pricing practices.

"These settlements end our enforcement claims against Calpine and Constellation, who w willing to renegotiate their long-term contracts ... and who were found ... to have commit smaller violations compared to other companies," Atty. Gen. Bill Lockyer said in a statement.

Calpine Senior Vice President Joe Ronan said the company's original state contract was valid, but officials decided their business interests would be served best by removing the controversy surrounding it.

"We did not think it would be good to go through two years of chaos.... We were looking certainty," Ronan said.

State officials also announced renegotiated contracts with three companies that produce v power--Capital Power, Whitewater Hill and Cabazon.

The new power deals are the first successful renegotiations of \$43 billion in long-term

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La Opinión

contracts signed last year after the state Department of Water Resources began buying power for customers of troubled utilities.

Initially, the governor and other officials trumpeted the contracts as a cure for blackouts and as insurance for the future. But the contracts looked increasingly unattractive as wholesale electricity prices plunged and as consumer groups and auditors exposed many weaknesses in the terms.

Among the problems, they said, were requirements that the state take and pay for power whether it was needed or not. The state had contracted for more electricity than was needed, especially during hours of low demand, and would have to sell the surplus at a loss.

The contracts have become a political thorn for Davis as opponents pummeled his handling of the energy crisis. In recent months, the administration, the PUC and the attorney general have pressured generators to renegotiate.

Davis said the new contracts address several weaknesses. "The state has gotten the power it needs, where it needs it, when it needs it and at a more competitive rate," he said in a statement.

State negotiators cut the Calpine contract from 20 years to 10 years with at least \$800 million in savings, and two other 10-year contracts were reduced by two years at a savings of more than \$1 billion each.

Similarly, the new agreement with Constellation Energy reduces an eight-year, three-month contract by six months while saving at least \$560 million. Constellation Vice President Paul Allen said the renegotiation allowed his company to reduce its risk by requiring the state to assume some of the cost of natural gas purchases.

The new contracts with Calpine also include provisions to ensure that new power plants are built, with the state taking over the sites and completing the plants if the company does not follow through.

State officials said all four Calpine contracts provide the state with improved flexibility to meet needs in the service territories of Pacific Gas & Electric Co., Southern California Edison and San Diego Gas & Electric Co.

V. John White, who headed a consumer coalition that waged a campaign to force renegotiation of the contracts, said he worries that the additional power to be purchased might not be needed.

But White said other contract provisions were beneficial, particularly requirements that the company complete construction of two environmentally friendly power plants at Otay Mesa and Metcalf.

"I think the test is going to be whether we get the plants built and whether the amount of power we are buying is really the power that we need," he said.

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