

**CENTER FOR ENERGY STUDIES  
LOUISIANA STATE UNIVERSITY**

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**NEWSLETTER**

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November 1996

**PROACTIVE ELECTRICITY  
RESTRUCTURING SEMINAR SERIES  
PROVES TIMELY**

In the past six months, the Center has conducted four day-long seminars on electricity restructuring. Restructuring refers to the expected transition of the electricity industry from one featuring vertically integrated monopolies regulated by the government to a decentralized, competitive industry with prices for generation set in the market place. The expectation is that the industry will evolve in much the same way as have the telephone and natural gas industries. Acting Executive Director, Allan Pulsipher, said that getting-in at the beginning is a good experience. "Frequently we are asked to look at an issue only after many decisions have been made and sides taken. And, in retrospect, it often seems that relevant alternatives have been foreclosed as positions harden."

Restructuring proposals range from legislatively mandating retail competition at the federal and state levels, to prohibiting retail competition as some state legislatures and utility commissions have done. "We hope," Pulsipher said, "we can help in finding those approaches that make sense in Louisiana."

The first seminar featured papers by two experts at Resources for the Future (RFF) in Washington, D. C. Doug Bohi, who heads RFF's energy division, compared retail and wholesale wheeling from a fundamental economic efficiency perspective. Karen Palmer presented a study that tried to estimate the environmental implications of restructuring--the good news for Louisiana being that environmental effects or complications appear

to be negligible in the state. For those that missed the seminar, Bohi's paper is the lead article in a recent issue of the Electricity Journal.

In the second seminar, Charles Stalon, a former Federal Energy Regulatory Commissioner, and Eric Hirst, a well-known analyst and Corporate Fellow at Oak Ridge National Laboratory, talked about the "governance" questions posed by a restructured industry and how to calculate the potential losses for existing utilities.

Costs and benefits to the larger economy of restructuring was the subject of the third seminar. A study conducted at Clemson University, funded by Citizens for a Sound Economy, was presented that forecast electricity bills nationally would fall by about 25 percent with effective retail competition. On the other hand, studies sponsored by Entergy, also presented at the seminar, postulated that sizable, immediate, rate increases would follow restructuring--at least for customers who stayed with existing utility systems and if allowed by the PSC. The authors of the Entergy study assumed a rate increase of this type would take place, because, they said, similar rate increases were observed when other industries were deregulated.

Reports on the progress of restructuring in California, Illinois, and New Hampshire were featured in the fourth seminar. California is usually regarded as the state closest to the cutting edge of restructuring and is committed to starting it full scale next year. However, a rather elaborate political compromise has evolved in the state that some critics describe as "no pain and no gain." The Illinois and New Hampshire pilot programs

are limited and seem to be driven by the desire of potential electricity suppliers to test marketing strategies and arrangements.

### **PTTC RECEIVES HONOR**

CES manages the Central Gulf Region (CGR) of the Petroleum Technology Transfer Council, which is a national organization consisting of one national and ten regional offices. PTTC was formed as a spin off from the Independent Producers Association of America in 1994. Its goal is to improve technology and information transfer to producers, primarily independents. Funding comes from the U. S. Department of Energy and individual state matching funds. During the recently completed federal fiscal year (Oct. 95-Sept. 96) the CGR and the North Mid-continent Region were named the top performing regions. Highlights of CGR's regional efforts and progress will be presented at the Annual Meeting of the IPAA in San Antonio.

Bob Baumann, Managing Director of the CGR, was surprised, but pleased, to learn about the evaluation. Bob said, "There really isn't any one thing that you can point to that accounts for our success. It is the synergistic effect of several things."

"We have not tried to do everything in-house, but we have outsourced to other units who can do some things better," commented Baumann. The LSU Department of Petroleum Engineering has provided some key technical assistance. They have jointly developed a produced water management technique with Hunt Oil, which won a national engineering innovation award. In addition to Louisiana it is also being used in the Kern River field in California.

The Basin Research Institute (BRI) has helped CES develop niche products like the Environmental Handbook for Oil and Gas Operators. PTTC co-sponsored a 3-D seismic workshop that BRI developed. BRI has held two such workshops--one in New Orleans and one in Houston, both of which were sold out.

In-house, CES personnel have designed what has been described by others as the easiest to use of the PTTC Web pages on the Internet. CGR's usage rates run either first or second among the regions every month.

Finally, CES' long-term relationship with operators and their local trade associations gave CES a head start and provides a continual strong level of interaction. Bob stated that, "We had credibility from Day One. After all, Louisiana operators nominated us to run the regional office. We don't want to disappoint those who put their trust in us."

### **CHEVRON AND TEXACO JOIN INDUSTRY ASSOCIATES COUNCIL**

Chevron and Texaco have joined CES' Industry Associates Council. Council members provide advice regarding new projects and thrusts and receive research results prior to publication. The Council has its origin in the original formation of CES in 1982. Such an advisory board was required by the Board of Regents and Legislature when they approved CES' management structure. Donations received from Council members are used to help support CES research projects, frequently as matching funds. The Council is comprised of 21 organizational members.

### **ADVISORY COUNCIL MEETING IN JANUARY IN HOUSTON**

We plan to have a meeting of the Industry Associates Council in Houston in early January. Among the topics we want to discuss are the results of the comparative study of state royalty and leasing practices, activities of the PTTC program, and the legislative and budget outlook for Louisiana.

### **CES IS SLATED TO MOVE TO AN ENERGY INFORMATION CENTER BUILDING--EVENTUALLY**

A new on-campus building designed to house a number of energy related programs will include space for the Center for Energy Studies. Plans are to locate the building as part of a natural resource

and environmental complex near the south entrance to the campus. Funds for the energy component will come through the Louisiana Department of Natural Resources. Estimated occupation date for the new building is late 1999.

### **LIOGA CONTRIBUTES IN HONOR OF CES AND PTTC**

Don Briggs, President of the Louisiana Independent Oil and Gas Association, presented a \$5,000 donation in late October to William Jenkins, then Vice Chancellor for Academic Affairs and Provost and now Chancellor, to support programs for students and faculty administered directly by Dr. Jenkins. The funds were generated from profits resulting from LIOGA's Gulf Coast Prospect Exposition held in Lafayette on September 24-25. The donation was made in honor of Robert Baumann, CES' former Executive Director, for his work associated with CES and the Petroleum Technology Transfer Council.

### **PSC TO GET TECHNICAL ASSISTANCE FROM CES**

Recently, CES and the Louisiana Public Service Commission (PSC) entered into a "Memorandum of Understanding" whereby CES would provide technical assistance to the PSC in its generic docket on electric restructuring. David Dismukes will be the primary CES staff member assisting the PSC on this matter. Dr. Dismukes will assist the PSC in evaluating comments filed in the generic docket, as well as providing advice and materials on restructuring plans and experiments currently underway in other states. Since this is such an important issue for the state, the Center has agreed to make David available on a part-time basis, for six months, at no cost to the PSC.

### **NEW STAFF**

Ric Pincomb, who had been working part-time for CES and part-time in another LSU unit, has joined the CES staff full time as of November 1. Ric has double Masters in Petroleum Engineering and Library Science. Ric will be working with Barbara Kavanaugh in the Data and Information Services

Division and will provide some needed support for projects associated with the Petroleum Technology Transfer Council, the Energy Council, and will have some organizational responsibilities with respect to CES' library collection and CES publications.

### **WILLIAM DANIEL HITS TRIFECTA**

CES Research Associate William Daniel IV will receive a Master's Degree in Environmental Science at LSU's winter commencement. His thesis dealt with the economic and environmental costs of the use of explosives to remove retired offshore platforms. In addition to this degree, William already has a Master's Degree in Petroleum Engineering from LSU and an MBA from the University of Tulsa. William is also a member of the Louisiana House of Representatives and is rumored to be contemplating working toward a fourth Master's in abnormal psychology and behavior.

### **PRESENTATIONS AND PUBLICATIONS**

Bob Baumann made a panel presentation on individual state oil and gas tax incentives at the National Mid-Continent Oil and Gas Association meeting in San Antonio in October. Joining Bob were the heads of the Revenue Departments and State Budget officers from Montana, Oklahoma, and Texas. Bob will also be making an invited presentation in Washington D. C. on Louisiana's horizontal well activity to a select group of representatives from DOE, the Treasury Department, the Internal Revenue Service, and Congressional staff members. A federal tax credit for horizontal wells is currently under consideration.

David E. Dismukes presented two papers at the Southern Economic Association Annual Conference in Washington DC: *Recovery of Stranded Investments: Comparing the Electric Utility Industry to Other Recently Deregulated Industries* and *Input Price Fluctuations, Total Factor Productivity, and Price Cap Regulation in the Telecommunications Industry*. David has made presentations on the topic of electric utility

restructuring and deregulation to the Louisiana Public Service Commission, the Louisiana Electric Cooperative Association, the Entergy Services-Transmission & Distribution Division, the Jennings Rotary Club, the Sunshine Rotary Club of Baton Rouge, and the Eighth Annual Economic Development Summit in Baton Rouge.

Wumi Iledare presented a paper entitled, *Technology, Resource Depletion, and Economic Incentives, and the Response of Drilling Productivity in Onshore Louisiana* at the 17th North American Conference of USAEE/IAEE in Boston, Massachusetts. Allan Pulsipher was a co-author of the paper. The paper is published in the conference proceedings. Wumi also presented a paper entitled *Empirical Modeling of the Risk of an Oil Spill During E&P Operation: A Case Study of the Gulf of Mexico OCS* at the annual meeting of Southern Economic Association in Washington, DC in November.

Dmitry Mesyanzhinov with David E. Dismukes

wrote *Spatial Perspective on the Forthcoming Deregulation in the U.S. Electric Utility Industry*. Dmitry presented this paper at the Annual Meeting of the Southwestern Division of Association of American Geographers in Norman, OK during November.

Allan Pulsipher, William Daniel, Vance Mackey of Chevron, and Jim Kiesler, a consultant, published *Explosives Remain Preferred Method for Platform Abandonment* in the May 6 Oil & Gas Journal. Pulsipher published a chapter, *Watershed, Aberration, and Hallucination: The Last Twenty Years*, in a book published by Johns Hopkins Press edited by David Feldman entitled *The Energy Crisis: Unresolved Issues and Enduring Legacies*. Pulsipher also spoke to the Energy Council meeting in Tulsa on offshore platform policy issues.

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