POWER MOVES!

Newsletter of the New York Energy Buyers Forum

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PHASE 3: BIGGER - MAYBE EVEN BETTER

We are about to enter the last phase of retail access. Soon all customers in the Con Edison territory will be able to choose their own power supplier. Like all the other phases, however, the devil is in the details. Here are a few to watch for.

Phase III is split into two segments: enrollment for the next 1000 MW opens April 4, but then the remaining ~7,000 MW opens up November 1, unless Con Ed can demonstrate that it is "infeasible for technical reasons."

One big change: a market supply charge and monthly adjustment charge replace the shopping credit and fuel adjustment charge. A market supply charge operates like a monthly floating backout rate. It's equivalent to the price Con Ed will charge its full service customers for energy, capacity and ancillary services, based on the monthly market prices published by NY ISO. In effect, this is a market-based wholesale commodity price.

Customers buying from a marketer avoid this charge by getting their energy, capacity and ancillary services from ESCOs. The charge in that case is whatever you negotiated with your ESCO for that month under your bilateral contract. Your savings is then the difference between Con Ed's bundled market-based price and what you paid your ESCO, just like the California ISO/PX.

The monthly adjustment charge is basically a catch-all that is the net of several costs and revenues incurred by Con Ed. It includes the costs of: IPP contracts, nuclear fuel at Indian Point 2, some of the fuel for steam/electric plants, "ancient" costs for Madison Square Garden power essence, it's a temporary subsidy to encourage competition.

Online energy purchasing panel reviews how to buy power over the Web. Lindsay Audin served as moderator.

lines (under a 1982 law), various transmission charges and credits, minus Con Ed's revenues from selling power plants, transmission congestion contracts,

and (finally) an undefined claim for a "true up resulting from retail access." Bottom Line: this is a charge to covers past sins and present virtues. Some of these items look like an attempt to capture "stranded" transmission costs; the Forum will be watching for any utility trickery.

To make all this happen, Con Ed must file tariff revisions by March 1. We then critique the draft so PSC can rule on it in April (hopefully before April 4, which is when Phase III starts!).

The backout rate for all large C/I customers (those who are billed for demand) buying power directly from marketers will be reduced through a credit of 0.2 cents/kWh. This applies equally to for-profit and non-profit institutions for a year. In

Small commercial and residential customers get an incentive in Phase III. For newbies, a one time incentive payment of $65 will be offered, but that money gets split three ways: $25 goes to the customer, $30 to the marketer, and $10 to any aggregator involved.

Residential and small commercial customers may enroll in the program any time during the year, starting on April 4. On the same day, new large customers (anyone being billed for demand) can enter the program on a first come, first served basis. While another 1000 MW is being newly opened to competition, the split among customer types is not known at this time. If the program is over-subscribed on the first day, the allocation of large customers to ESCOs would be done on a pro-rata basis (i.e., biggest marketers in Phase II get the largest allocation in Phase III).

When the PSC's written order comes out, NYEBF will issue a more detailed memo. As the decision is expected in early March, expect a summary of those details at the March 15 Forum meeting.

PLAYING IN THE NY ISO - DON'T TAKE YOUR HELMET OFF JUST YET

The NY ISO took over control of the State's transmission system in November - and the lights stayed on! Does this mean all is well? Not quite.

Following the ups and downs of the ISO in the trade press leaves one with the notion that things are generally OK in the western part of the State where there are few transmission constraints, but down here (in what is called Zone J), nobody's jumping to announce their pricing. One trade daily has variously described the market for this area as "so quiet you could hear a pin drop" or that "grass was seen growing on the Zone J market today." Only a handful of deals have been done so far, due to some of the same ISO problems seen in New England and initially in California.

Such problems included software glitches and an inability to know the real price one must pay until after his deal is done. Think about going into a store and not being able to see the price on an item until after you got home: how could you shop? Or even know if you had enough money with you?

Some marketers have banded together to push for changes to the system, but the jury is out if they will occur before May 1, when Phase III begins.

First Glimpses of Summer Pricing

One of the few prices that has appeared so far should give pause to customers with high summer loads: a wholesale commodity *energy* price (averaged for the four summer months) of $.125/kWh is being quoted, irrespective of installed capacity requirements. That's over double what it was last year (though the market was even less mature then). If that's the price for the whole summer, expect even higher monthly commodity prices for July and August. Last year, prices jumped in the New England ISO, but were retroactively changed, confusing everybody.

While it is unlikely that wide swings will appear in the NY ISO's first summer of operation, customers should be thinking about how their suppliers will control such price risk. A combination of options are developing: transmission congestion contracts, contracts-for-differences, weather derivatives, on-site peaking or emergency generation, automated dimming for non-essential lighting, just to name a few.

While still a bit arcane for novices, you can track wholesale pricing through the NY ISO web site at http://www.nyiso.com/index.html.

FERC Also Has Something To Say

FERC added its own spin to ISOs when it recently issued Order 2000, which asks utilities to join “regional transmission organizations” (a/k/a RTOs). While not required to do so, many utilities see that their future may depend upon turning over control of their transmission to a central outfit whose goal is to move power at the lowest cost for the customer, not the highest rate that a utility wants to charge. While mainly of interest at the wholesale level, such changes trickle down to the retail user when a marketer can cut his costs for transmission.

ERC has offered some “carrots” to make this happen, rather than taking a purely regulatory approach. It has indicated, for example, that it would be more willing to approve mergers (many are pending) if the merging firms agreed to put their transmission assets under an RTO.

FERC’s preference is that, over the next decade, many ISOs will consolidate into only a few RTOs. That would likely mean pressure for the ISOs in New England, New York and PJM (PA, NJ, MD, DE) to combine into one RTO.

The Forum filed comments supporting such a change, while New York utilities tried to claim that New York’s ISO was already an RTO. Getting access to cheap power in PJM (which starts just across the Hudson River) would enhance competition. It would also begin to open the NYC load pocket when the weak transmission links between the two ISOs are finally reinforced (which is one of FERC’s long-term goals). None of that will happen tomorrow, but such changes are what deregulation is all about.

MARKETERS STOCKING UP ON TYLENOL

To all marketers: when it comes to trying to figure out power pricing for this phase, you have our deepest sympathy. So much will be changing this year that it’s tough to figure out how annual prices can logically be created. Here are a few of the headaches that marketers must endure to give customers a price in Phase III.

- The sales tax exemption for transmission and distribution (which provided most savings seen by for-profit customers) is scheduled to go away April 1, 2000, as indicated in a memo issued by the New York State Department of Taxation.

- ISO pricing (see other article) is not exactly predictable at this point.

- Locational Marginal Pricing (LMP) is part of that ISO pricing, but could get dicey during the summer for any area with transmission constraints (mainly NYC, not Westchester).

- Those relatively simple shopping credits will be gone, making it more difficult to show how much savings (relative to bundled service) might be occurring.

- For the first time, it might actually make a difference what a customer’s hourly load shape looks like, but real-time access to a customer’s hourly metering is still not in place for most large customers.

Good luck, guys. We look forward to your efforts.

BUYING POWER OVER THE INTERNET

January’s Forum meeting focused on ways that retail customers can buy power (and, in some cases, natural gas and oil) using the World Wide Web. Over 60 people, many of them new to the Forum, attended a panel of on-line energy marketers chaired by Lindsay Audin, founder of the Forum. Presenting were reps from Brightoptions.com, Energy.com, Unitil.com, and Enermetrix.com.

So what is on-line purchasing and what could it do for you? In effect, it's a "dating service" for customers looking for suppliers, and vice versa. It's an easy way to offer your load to a variety of suppliers, through a Web-based intermediary, to strike a deal that offers the lowest price while meeting your contractual requirements. Your consultant or vendor may already be using such a service.

Who's Doing What?

Both wholesale and retail transactions are underway on the Web. Wholesale sites offer access to real-time (i.e., hourly) market pricing through power exchanges and private brokers, while retail Web sites offer mainly monthly or annual pricing. Marketers use the wholesale services, aggregators are using both levels, while end users are checking out the retail sites.

Those who watch such markets are predicting that, over the next five years, power sold over the Internet will reach $100 billion a year, with total annual energy sales (power. gas, and oil) reaching $266 billion by the end of 2004.

Benefits and Caveats

The Forum panel listed several reasons retail customers should consider trying out their sites:

- easy/anonymous price discovery (without revealing your firm's name to suppliers)
- zero up-front cost (the supplier pays the site a commission for his sale to you)
- avoids the hassles of an RFP (this is one of the main advantages)
- electronic billing and accounting.

Here are a few questions you need to ask before deciding to use such a service.

- Does the service cover your locations? Most sites are regional at this point.

- What size/type of customers does it serve? Some aim only at residential and small commercial, while others have a minimum size (e.g., 300,000 therms/yr, 7,000 MWh/yr)

- Is pricing based only on monthly data or can it reflect your daily load profile?

- Is only "full requirements" power offered (i.e., no curtailable option if you have a generator)?

- How secure is your data (i.e., can it be sold to other types of vendors)?

- How quickly do you get a response? Most promise a 24-hour turnaround.

- What if you want to back out? Are there any penalties?

- Can you choose the vendor? Suppose the winning bid is somebody you don't like?

A Few Sites To Check Out

New on-line energy selling sites have been popping up at a rate of one or more a month since the first opened in early 1999. As of Feb. 1, the following were actively selling one or more forms of energy:

excelergy.com	scanaonline.com
utility.com	essential.com
amdax.com	e-choicenet.com
energyguide.com	energyguide.com
brightoptions.com	energy.com
demx.com	powersavers.com
smartenergy.com	unitil.com
utilisave.com	navitas.com

enermetrix.com (a/k/a energyagent.com)
electricitychoice.com (a/k/a electricchoice.com)
worldenergyexchange.com (a/k/a i2i.com)

It's worth your time to "surf" a few of these sites so that you're aware of this option, should you wish (or need) to take advantage of it in the future.