

POWER MOVES!

Newsletter of the New York Energy Buyers Forum
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NYEBF REQUESTS MOTION TO INTERVENE. OBJECTS TO KEYSpan-RAVENSWOOD REQUEST FOR FAST TRACK PROCESSING ON ICAP

NYEBF is seeking information about the methodology behind current *installed capacity* (ICAP) procedures and market design, both inside and outside New York City and will be placing a motion before FERC to review the continuing role of ICAP.

At present, generators are paid an ICAP fee by all wholesale customers through an auction process. Initially, the ICAP charge was designed to promote the construction of new generation and to guarantee capacity for variable, market-based supply contracts. At question is the applicability of both those assumptions.

The cost of the fee is passed on to all customers, whether you purchase your electricity from Con Edison or an ESCO. ICAP requirements currently represent up to 2 cents per KWH of our electricity costs.

NYEBF finds that a recent “fast track” motion by Keyspan-Ravenswood (to fix their ICAP revenues) is inappropriate and unacceptable in light of the complexity and costliness of the issue. The NYEBF believes further time is needed to investigate the ICAP issue in order to provide its members with the best possible information and representation.

Members are encouraged to assist with the next issue of Power Moves! Contact Daniel Levin at dan.levin@ey.com to suggest future topics that would be of interest to our membership, to contribute articles, or to provide other support towards the publication of this newsletter.

NYEBF CURRENT INTERVENTION/ INVESTIGATION ISSUES:

- Reforming the way that installed capacity charges (ICAP) are levied for firm electric contracts.
- Clarifying and stabilizing the monthly adjustment charge (a/k/a MAC) which presently accounts for a combination of stranded and other regulated costs.
- Ensuring that revenues from the sale of Con Edison’s First Avenue properties are fully allocated to reduction in stranded cost charges.
- Supporting Con Edison’s receipt of federal funds needed to repair the damaged power distribution system at the World Trade Center site.

NEWSFLASH:

Inter-regional ICAP (Installed Capacity): The NY ISO approved a motion on February 7, 2002 to amend its tariff to allow NY suppliers to sell ICAP to other control areas.

Automated Mitigation Procedure (AMP II): The NY ISO submitted a FERC compliance filing on March 20, 2002 regarding Comprehensive Market Mitigation Measures and a revised Automated Mitigation Procedure. The purpose is to adjust how and when mitigation procedures are triggered to protect against market power abuse. The proposals include: (1) must be at least 50 MW (from a single entity) to trigger mitigation; and (2) improved selectivity in when mitigation occurs (smaller areas affected). Conduct and impact test would also be used when evaluating when to mitigate.

Congestion Mitigation: The NY ISO approved a motion on February 7, 2002 to revise who pays for transmission congestion. Currently, all transmission owners pay for an outage, not the one responsible for the outage. The expected impact of the Congestion Reduction Proposal is an increase

in costs to Con Edison. Most downstate/NYC area members voted against the motion. Appeals have been filed with the Board by Con Edison, *et al.* and LIPA.

WHAT'S NEW IN ENERGY:

- New innovative way of cooling building is being used in 1155 Avenue of the Americas. There are 32,840 gallons of ice being used for cooling the building with twenty-eight cylindrical tanks.
- The Alexander Hamilton U.S. Custom House (a National Historic Landmark and completed in 1906) in lower Manhattan and the Emanuel Celler U.S. Courthouse in Brooklyn, NY received the Energy Star Label from the Department of Energy and the Environmental Protection Agency. The Energy Star Label is awarded to buildings that demonstrate energy performance in the top 25% of the office buildings market, while maintaining indoor environmental requirements for air quality, thermal comfort and lighting performance. Efficient lighting fixtures achieved energy reductions at both facilities. In addition, newer, energy-efficient chillers had been installed at the Brooklyn building.
- New York Power Authority to provide up to 80 megawatts of power to businesses in lower Manhattan. Certain criteria must be met and priority given for specific tenants. Namely, priority given to former tenants of World Trade Center buildings. However, it is not limited to them. All tenants applying for the low-cost power should be aware that if their building is in a fixed contract with an energy service provider they may not be eligible. For additional details on eligibility and program criteria refer to the NYPA website at www.nypa.com.

How Retail Customers Can Benefit from the Wholesale Electric Markets

When the New York wholesale electric markets became deregulated at the end of 1999, retail consumers saw unprecedented price volatility and

for the most part, were only able to choose between two products – a fixed priced and an indexed priced contract – to try to control their costs. Now customers are seeing more opportunities with variations in pricing structures as well as some new products that provide discounts or actual cash payment for customers that can aggressively manage their electricity usage. Following is a list of programs that New York Independent System Operator (ISO), which oversees the wholesale electricity markets in New York, has established to encourage retail customers to more directly participate in the energy market.

Installed Capacity (ICAP) – Customers with the ability to curtail electric load or transfer load to on-site generation in response to an ISO curtailment request can sell Installed Capacity on a monthly or seasonal basis. Customers must have hourly metering and be able to reduce at least 100 KW of usage for at least 4 hours after receiving notice of the curtailment the day before. The value of the Installed Capacity varies throughout the state and is highest in NYC and Long Island where it can be worth as much as \$100,000 per MW per year. The actual amount of capacity that a customer can sell depends both on how much electric load they can reduce (which must be demonstrated at least once per season during ISO scheduled tests) and their historical performance in response to ISO curtailment requests. Qualifying customers can sell their ICAP to any marketer regardless of who they are buying their electricity from.

Emergency Demand Response Program (EDRP) – Customers that reduce load in response to an ISO curtailment request are eligible for an energy payment. EDRP is a voluntary program that the ISO can call at any time but that typically coincides with the ICAP curtailment requests. Customers that qualify for ICAP usually subscribe to EDRP as well because the EDRP payment helps offset their operating cost during a curtailment request.

Day Ahead Demand Response Program (DADRP) – This program provides an energy payment to customers who have the ability to curtail or reschedule electric loads based on economic decisions with day-ahead notice. Unlike

ICAP and EDRP, customers can only participate through the marketer that they are buying their electricity from although the ISO hopes to expand the program to allow customers to participate with any marketer by the end of the year. Customers have to identify the amount of load that can be curtailed and are able to pick the corresponding strike price at which they want to get to be curtailed. Their marketer then submits a conditional bid to buy that amount of electricity from the market only if the clearing price is less than the customer's strike price. If the clearing price is higher than the customer's strike price, the marketer informs the customer which hour(s) the customer needs to curtail load. The value to the customer would be based on the actual hourly energy prices when they curtailed usage.

Customer Implications - Customers wishing to participate in these programs may have to revisit their operating strategies – which typically are established to respond to static utility rate blocks – and reprogram their energy management systems and equipment controls to respond to varying market prices. Going forward, customers upgrading equipment should look to specify more flexible products that provide them with the ability to respond to dynamic price signals. Although only a small number of customers may initially participate in these programs, their actions can also have benefits for all customers as price responsive behavior can avoid the need to turn on a more expensive generator. As some customers begin to respond to price signals and reduce their usage during high priced periods, all customers should see reduced price volatility and lower electricity prices.

NYSEG and RG&E Merger Approved

The New York State Public Service Commission issued an Order on February 27, 2002 approving the merger of NYSEG and RG&E as well as NYSEG's price protection plan. The plan provides for four rate options. Customers that do not choose a competitive supplier may choose a Bundled Rate Option (BRO) with fixed energy and delivery rates or a Variable Rate Option (VRO) with a variable energy charge, a floating nonbypassable wires charge and a fixed delivery rate. Customers electing competitive suppliers may choose the ESCO rate option (ERO) comprised of a fixed delivery rate, floating nonbypassable wires charge, and the ESCO commodity charge or the Bundled Rate Option with a market-based backout credit and a 3 mill adder for small customers or a 5 mill adder for large customers. The Commission also put NYSEG on notice that it would not tolerate anti-competitive conduct.

A few key points of the proposal are:

- The term is for five years beginning on January 1, 2002 thru December 31, 2006.
- 2002 will be the “transition year” – bundled rates will continue during this time.
- There will be two (2) Commodity Service Offerings – rates will be unbundled
 - The first will be from 1/1/03 thru 12/31/04.
 - The second will be from 1/1/05 thru 12/31/06.

With thanks to NYEBF members Stephen Wemple, Director, Retail and Regulatory Affairs for Con Edison Solutions and Chairman, NYISO Business Issues Committee; and Sara O'Neill, Director Regulatory Affairs, AES NewEnergy for their contributions to this edition of Power Moves!

The New York Energy Buyers Forum is a non-profit corporation formed to help its members obtain lower utility costs. For more information about the NYEBF or to join, please contact us or visit our website.

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