POWER MOVES!

Newsletter of the New York Energy Buyers Forum
Early Summer 2002

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The New York Energy Buyers Forum would like to thank 1st Rochdale Cooperative for underwriting the publication of this newsletter.

Member Seminar

Must Attend

"Ensuring Reliability Through ICAP: To Reform or Not To Reform?" Tuesday, June 4, 2002, 9:00 a.m. to 11:00 a.m. (Registration starts 8:30 a.m.; Members-Only Briefing: 11:15a.m. to Noon) Location: 780 Third Avenue (between 47th & 48th Sts.), C-2 level Auditorium, New York City

About 15-20% of your electric bill is a fee, the Installed Capacity (ICAP) deficiency charge, designed to encourage enough generation to keep the lights on and wholesale prices competitive. Some are now asking if that process, which costs New Yorkers ~$1 billion per year, is working, and if better alternatives may be available.

For background information on this compelling topic, you can read a FERC working paper on the subject titled, "Ensuring Sufficient Capacity Reserves in Today's Energy Markets." A copy of this document is available on NYEBF's website, www.nyebf.org/dl-docs/capacity_reserves.pdf.

Judith Mondre, Executive Director of the Forum, will moderate a panel that includes representatives from:

- Federal Energy Regulatory Commission (FERC)
- Generation Owners and Power Marketers
- Investors and End Users

Admission is free for NYEBF members, $45 for non-members. Non-Members need to RSVP to the Forum at (212) 419-1919 or ted.lee@nyebf.org by May 31. Refreshments will be served. Please arrive early to pass through security check.

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.

Contributing Writers: Herb Rose, *Herb Rose Consulting*
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Summer 2003 and Beyond

According to reports in *Electricity Outlook: A Call to Action* (prepared by the Energy Committee of the NY Building Congress), New York City needs 2,000-3,000 MW of new electric capacity by 2006 to meet growing demand requirements. In short, the following measures are to be taken to ensure reliability: continued conservation efforts, new generation built, and accelerating introduction of clean distributed technologies; *i.e.*, co-generation, natural gas chillers, solar, fuel cells, etc.

Copies of the full report can be obtained through the NY Building Congress, (212) 481-9230, www.buildingcongress.com.

Regulatory Issues

A. FERC Issues

Regional Transmission Organization

FERC (Federal Energy Regulatory Commission) has ordered nationwide electric transmission to be organized into Regional Transmission Organizations to expedite the movement of electric power around the country. In the New York Area, the trend appears to be towards an RTO consisting of the New York ISO, the New England ISO, and parts of Canada. Practical considerations seem to dictate this conclusion in that the power companies in both US areas have substantially sold off their generating facilities and are primarily resellers of acquired power delivered through their wires.

While initially a union of New England, New York and PJM (Pennsylvania, Jersey, and Maryland) was considered, the conventional wisdom has evolved that including the PJM utilities in a

Northeast RTO (NERTO) would be incompatible since they still own their generating facilities.

Many issues remain unresolved such as “Best Practices” of each ISO. The New York ISO has developed a system for market monitoring in which monopolistic practices, which drive up prices, are regulated. A supervisory function, Independent Market Monitoring Unit (IMMU), is an issue with consumer groups looking for its continuance and the ISO Board taking an ambivalent position.

The timeline for the RTO process is as follows:

Date	Goal
5/14/2002	Preliminary NERTO Cost-Benefit Study
5/22/2002	Initial Draft FERC Filing
Week of 6/17/2002	Vote on Final Draft Filing
6/28/2002	Submission of FERC filing
Fall 2002	Final FERC ruling

Table is summarized from NYISO’s semi-monthly newsletter, *NYISO Insider*, Volume 1, Number 7, April 30, 2002.

Overshadowing all of this is the fear that a new RTO will create more bureaucracy and expense without producing a single kilowatt of electricity. On the other hand, the flexibility of moving power from one place to the other may keep a lid on prices and add to reliability.

Herb Rose, Herb Rose Consulting

<u>Automated Mitigation Procedures (AMP II)</u>
ERO1-3155-002, et al.
Given the approach of summer, there has been some activity regarding AMP II since our last newsletter (Spring 2002). On April 23, protests and comments were due. In all twelve motions to intervene and four comments/protests were filed. Additionally, on May 1, FERC extended the existing Automated Mitigation Procedures (AMP) and penalty provision through May 31, 2002. The provisions had been set to expire on April 30, 2002. Given that FERC had initially provided itself with only two months between submission and implementation of AMP II, we fully anticipate that FERC will issue its order by May 31, 2002.

<u>Keyspan-Ravenswood, Inc.</u>
EL02-59-000
As reviewed in last month’s *Power Moves!*, Keyspan-Ravenswood, Inc. filed notice on February 15, 2002 that it wanted to fast-track approval of changes to in-City installed capacity (ICAP) procedures. Eight motions to intervene in the case, including that by NYEBF, were submitted by the filing date or March 7, 2002. On April 23, 2002, Keyspan-Ravenswood, Inc. filed a protest and motion to consolidate this docket under ER01-3155-000, et al. – the AMP proceeding mentioned above.

B. NYPSC Issues

<u>Consolidated Edison, Phase 5</u>
Case 96-E-0897
On April 29, 2002, the PSC approved Con Ed’s Phase 5 proposal with modifications. The following is a quick synopsis of the order.

1. The PSC rejected Con Ed's proposed credits of 1 mill/kWh for non-demand billed and 0.5 mill/kWh for demand billed for retail choice customers. Instead, it ordered that Phase 4 credits of 2 mill/kWh for non-demand billed and 1.0 mill/kWh for demand billed for retail choice customers be continued in Phase 5.
2. The PSC set guidelines as to how and when Con Ed could assign customers to new ESCOs. Con Ed had proposed that should an ESCO discontinue service to a customer, Con Ed would have the capacity to assign that customer to another ESCO. Instead of adopting Con Ed’s proposal, the PSC set guidelines and attempted to protect the customer by mandating that in the event of an assignment, the terms and conditions of the customer’s original contract be honored by the new ESCO for the remaining term of the contract.
3. The PSC ruled that Con Ed would not need to file further retail access plans if fully unbundled rates are available by November 1, 2002.

Plans for Electric Rate Restructuring with respect to service in Westchester County
Case 00-E-1208
The PSC issued a Notice Soliciting Comments on April 17, 2002 on issues surrounding the following: the impact of deaveraging of retail rates to reflect the utility's actual cost of wholesale power; whether deaveraging would encourage more innovative pricing and metering; whether deaveraging could be accomplished across the State on a revenue neutral basis; and whether is a minimum wholesale price differential below which deaveraging would not be warranted. Notice of Intent to Comment is due to the PSC on June 3 with Comments due June 17, 2002.

Westchester contends that under the present electric rate structure with Con Edison, Westchester ratepayers use about 12% of the electricity Con Ed supplies to its service area but pay 60% of the utility's stranded cost. If the rate structure is changed, there is a possibility of a significant increase in cost to New York City ratepayers. NYEBF will continue to review and monitor this case and keep our members posted.

Distributed Generation Update

The New York State Dept. of Environmental Conservation (DEC) has liberalized the requirements for small on-site generators, many of whom had previously been threatened with coverage that applied primarily to larger fuel users (e.g. central boiler plants and Title V). To an end user considering distributed generation, but does not have a central boiler plant (e.g. a typical Manhattan office building that uses utility steam for heating and maybe cooling), not being covered by Title V and other regulations amounts to avoidance of emissions limits that had (in the past) applied to the user. The user must still comply with the limits on lbs of NOx per MWh, and is required to use the super low sulfur fuel oil (or convert their diesel generator to fumigated operation in which natural gas replaces ~80% of the oil) but is now otherwise much less encumbered by the regulations.

For additional information on how to proceed on distributed generation, provide a description of equipment (or proposed equipment) and then call the designated DEC Contractor (EFC) and/or the DEC's permitting representative.

Contact information:

- EFC: Business Assistance Program, (800) 780-7227
- DEC: Permitting Contact, Michael Cronin, (518)-402-8403, mpcronin@gw.dec.state.ny.us

CHP Workshop

"Using Technology to Improve Energy Efficiency Throughout New York State"
Thursday, June 20 and Friday, June 21, 2002. Location: Sheraton New York Hotel, 811 7th Avenue, New York City.

The New York Energy Buyers Forum is a co-sponsor of this conference on Combined Heat and Power (CHP) in New York State.

At the workshop, you can

- Learn how to overcome hurdles to CHP from those who have installed systems in New York State.
- Attend site tours to view operational CHP systems.
- Help identify issues and opportunities to further the use of CHP in New York State.
- Discuss ideas for projects with NYSERDA staff and other potential project partners.

The two-day workshop fee of $200 per person covers the cost of two continental breakfasts, lunch, box lunch, and hors d'oeuvres at the reception (cash bar).

For more information, visit the NYSERDA website www.nyserda.org/chpnys.html, or contact Tammy Cunningham at (518) 862-1090 x3252 or e-mail chpnys@nyserda.org.

NYEBF Examines Con Ed Rate Structure

All electricity charges from Con Ed are derived through a NYS Public Service Commission approved rate structure. Customers can choose to receive electricity supply and delivery services from Con Ed under the "Full Service" rate, or purchase supply from an ESCO and receive only delivery services from Con Ed under the "Retail Access" rates.

The most recent version of the rate structure that went into effect in May 2000 did not revise Con Ed rates from scratch, but rather added additional levels of complexity onto the old rate classes and charges. The tariff changes were designed to allow Con Ed to pass its cost for procuring electricity for customers through to customers via a Market Supply Charge (MSC) that is adjusted monthly. Retail Access customers do not pay the MSC, but do share the Monthly Adjustment Charge (MAC) with the Full Service customers. The MAC can be seen as a vehicle for passing additional cost of doing business expenses onto customers. The MAC, like the MSC, is set in the tariff in six-month strips and adjusted monthly to (in theory) more accurately reflect changes in Con Ed's costs.

In their application, we have found that the MSC and the MAC are not without their flaws.

Firstly, the MSC is supposed to represent Con Ed's costs to supply you with electricity. Instead, Con Ed calculates the MSC as if it bought its entire load on the spot market (i.e., through the NYISO). This inflates the value of the MSC, as Con Ed buys most of its power from long term standing contracts at very good rates. The Retail Access rates are taken by subtracting the MSC from the Full Service rates.

Secondly, Con Ed argued, as did most utilities, that if it were to move out of the energy generation business, that it would be left with a bunch of assets that it had been required to build as a monopoly, and that it was only fair that the write down of these costs should be borne by all users. These stranded assets are included in the MAC. Con Ed was also successful in arguing that long term standing contracts it holds to provide power from other generators and utilities (e.g. two nuclear facilities on the Hudson) should be a part of the MAC. It was agreed that Con Ed could then adjust the value of the MAC according to the value of those contracts in relation to the spot market each month.

While the sale of Con Ed's generating assets have on occasion created a discount in the MAC, we believe that the general volatility of the MAC requires more explanation and the make-up of its cost components needs to be clearer and fair (unbundled).

We have also noticed that in falling markets, the MSC drops, while the MAC rises. The MAC cost is tied to the standing contracts, which are valued at an established market rate every six months. If the markets drop during that time, the value of those contracts drop, Con Ed "loses" money, and collects it in the form of a MAC increase at the end of the month. While these adjustments are supposed to balance Con Ed's gains and losses, under this particular instance, delivery costs now appear to include a significant and volatile energy component.

In conclusion, costs for delivery are not only unstable but also have a market driven energy component to them. During times of a low energy market, delivery costs rise. The value of being in the competitive market is lost, as it does not pay to fix rates with an outside supplier when the delivery costs plus generation costs rise above the full service costs. We find this present tariff arrangement inherently unclear and worthy of further scrutiny.

The New York Energy Buyers Forum will continue to monitor the current tariff system and will prepare for future opportunities to support an unbundled and financially balanced utility tariff.

Richard Fuller – Great Forest Inc.

Local Energy Suppliers Shed Light On The New York Market

Recently, we asked a number of local energy suppliers a few questions about the New York electricity market. The following is a sampling of their responses:

1. **For the past two years, we have expected high electricity prices in the summer, but have been spared to some degree by moderate weather. What does your forward price curve (or projection) look like for this summer and what do you see as the major factors affecting price?**

We expect that electricity prices to remain high due to the lack of additional capacity in New York City, the possibility of a hotter summer than the prior year, the continual increase of natural gas prices needed to support load growth and reliability.

Michael Haledjian, Hess Energy Marketing

2. In light of the current market, what type of pricing structures do you recommend for commercial properties and not-for-profits (hospitals and universities)?

1st Rochdale would recommend that not-for-profits consider a fixed price through the summer and then re-price to a new (presumably lower) fixed price in the early autumn. We believe that not-for-profits (and owner-occupied multi-family housing) will value the budget certainty of a fixed price more highly than the market precision of a floating price, but we anticipate that extended fixed price opportunities will be lower in the early autumn than they are at present. The term for this autumn contract period should be in multiples of 12 months in order to keep on an autumn pricing schedule.

1st Rochdale would recommend that commercial accounts evaluate their risk tolerance to determine whether a complete floating price (perhaps tied to NYISO's LBMP) is most appropriate, or whether a capped market hybrid is preferable. In these tight economic times, it is possible that many commercial properties will opt for the budget certainty of a fixed price, although our recommendation would be to set a price for the summer, with the commercial account re-pricing their fixed price transaction for a longer term deal in the early autumn, when the forward prices are anticipated to be more reasonable than at the present time. Again, the term for this autumn contract period should be in multiples of 12 months in order to keep on an autumn pricing schedule.

David Johnson, CFO
1st Rochdale Cooperative Group Ltd.

After 9/11 and with world crises at hand, I believe it is always prudent to lock in fixed prices as long as they are affordable. Downside loss potentials are minimal while upside loss potentials for floating customers could be quite large.

Walter Donzila, Select Energy

3. If you recommended a partial or full floating price for the summer months, what types of price risk mitigation (e.g., caps, collars) do you suggest, and how can building managers best pitch such proposals to their senior management?

We do not recommend floating prices for customers unless the customer is financially sound and cash flow is not a problem.

Kevin Laguardia, Hess Energy Marketing

Large customers (> 1MW) can float while they hedge a volume of their energy using a swap (we provide). This way, they can take a fixed price on 60% to 90% of their energy, and let the rest float with the market. Deals are structured to allow customers to take the risks they are comfortable with.

Walter Donzila, Select Energy

4. In the long term (two to five years), what do you see as the major factors affecting the electricity market in NYC, and what will be the net affect on prices?

Load growth, generation supply, environmental issues, and gas prices would be the major factors effecting electricity prices in the future. We expect to see higher prices in the summer months in the future.

Michael Haledjian, Hess Energy Marketing

New generation/transmission will have the greatest effect, tending to keep prices down. World crises affecting oil prices could push the gas prices and electric prices higher. This second effect is the greater unknown. Another unknown is regulatory change. If gas and oil prices increase, it will be hard to keep electric prices lower. New technology and better demand management may be able to counter rising prices.

Walter Donzila, Select Energy

NYEBF's Personal Interview

Chi K. Chu, *Silverstein Properties, Inc.* discusses New York State Energy Research Development Authority (NYSERDA)

What are some of the NYSERDA programs you are interested in?

I am interested in programs that will save energy while addressing environmental concerns. However, the measures to be considered should be user-friendly. In other words, the programs should enhance the value of our buildings and not create problems for the tenants.

What are some of the concerns you have about NYSERDA?

One of my concerns is having outside consultants (dispatched by NYSERDA or an Energy Service Provider) come into our buildings and implement recommendations that may be impractical. In addition, NYSERDA's policy in which funds are distributed on first come, first serve basis may be a problem. In the early stages of planning, a property owner should know any up-front commitments from NYSERDA.

Finally, would you recommend applying for NYSERDA programs?

I like the old Con Edison steam rebate program and its quick turn-around approval process. I hope that the NYSERDA program can do the same.

We would like to thank NYEBF members Michael Haledjian and Kevin Laguardia of Hess Energy Marketing, David Johnson, CFO of 1st Rochdale Cooperative Group Ltd., and Walter Donzila of Select Energy for responding to our market questions.

The New York Energy Buyers Forum would like to thank 1st ROCHDALE Cooperative 465 Grand Street, 2nd Fl New York, New York 10002 212.673.3900 Ext. 1 for underwriting the publication of this newsletter.

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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