POWER MOVES!

Newsletter of the New York Energy Buyers Forum
Early Fall 2003

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A Word From Our Chairman

With the exception of the "Blackout of 2003", New York City managed through another summer without major capacity restrictions. This is in part due to a much cooler summer this year than last. It does not mean, however, that we can turn our heads on capacity issues in the future. Nor can we ignore pending rate increases from Con Edison for both electricity and steam. The New York Energy Buyers Forum is gearing up for what is anticipated to be a regulatory roller coaster ride. It is imperative that we collaborate and increase our voice in the regulatory arena.

Mayor Bloomberg recently announced the formation of an Energy Policy Task Force. His administration has requested that I represent the NYEBF's interests as well as those of BOMA and OCER. The initial concern that we will focus on is how to increase electrical capacity in New York City. Input from you, our members, will be vital in ensuring that the needs of the NYEBF are addressed.

Looking back on this year, we have fought to bring attention to issues such as installed capacity, real time pricing and Con Edison's steam rate case. These are issues that could affect all property owner's cost of operations. The Steering Committee and myself will stay committed to ensuring that the NYEBF membership is fairly represented on these matters and other developments in the future that may affect owners reliability and costs. As always, we welcome participation and input from the membership.

Jay Raphaelson

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.

Upcoming NYEBF Seminar:
"Lessons Learned From The 2003 Blackout"

September 25, 2003, 9:00 am – Noon
Beth Israel Hospital
Philips Ambulatory Care Center (PACC)
2nd Floor Auditorium
10 Union Square East
(the extension of Park Avenue near 15th Street)

The "impossible" happened – again. Some were prepared, others were not, but all learned something from the event. Find out what you can do to better prepare your facilities and people.

Chuck King, VP Marketing Services, NY Independent System Operator (ISO), will provide a wrap-up of what went wrong, and what the ISO is doing to avoid a repeat performance.

Then, through a series of short "what I did during the blackout" presentations, building managers and engineers will recount their hands-on experiences, and what they would do differently next time.

- ***Manny Patino***, JP Morgan Chase
- ***John Bowen***, Forest City Ratner
- ***Gary Sedoruk***, Jones Lang LaSalle
- ***Johnny Christian***, Durst Organization

Don't miss this once-in-a-lifetime (we hope) opportunity to pick up tips that could prove invaluable for your buildings and businesses!

Admission is free for NYEBF members, $50 for non-members. All attendees (including members) are asked to RSVP to the Forum at (212) 419-1919 or events@nyebf.org by September 19th. Refreshments will be served. Further information about the New York Energy Buyers Forum may be found at www.nyebf.org.

A members-only briefing will be held following the seminar from 11:00 am to 12:00 noon and will review recent Forum activities.

Natural Gas Market Summer Report

This past winter, natural gas storage volumes were depleted to almost record levels. As volumes decreased prices rose. Prices peaked in March with a NYMEX close of $9.13 per MMBTU. A twelve-month NYMEX strip price (an average of 12 months prices) was at $6.50 in March.

Over this spring and summer, the mild weather has helped to significantly reverse the gas storage situation. We are now within the five-year average range for supply and appear to be able to reach the accepted "winter requirement" safety peak of 3 tcf (trillion cubic feet) of gas in storage. Prices are still high compared to this time last year, but have now come down to the $4.60 range for October, around $5.35 for January 2004, and a twelve month strip is approximately $4.95 per MMBTU. Barring hurricanes that interrupt natural gas production, it is likely we will see prices continue to moderate to a small degree until predictions of winter weather are issued.

Daniel Levin
Ernst & Young Energy Advisory Services

Oil Outlook

Current oil market fundamentals are starting to show signs of inventory expansion in the United States. They continue to lag behind previous years, but refining margins are positive so they will continue to run at high rates. Gasoline inventories have been tight therefore keeping other product prices high relative to gasoline. As gasoline demand diminishes post labor day we expect prices to weaken. Attention will now shift towards the winter and currently heating oil inventories are increasing in the U.S. They are above the three-year average and slightly below last year as we approach the heating demand season.

Barring any unforeseen circumstances, we expect prices to decline over the next four to five weeks. Our expectations are for an approximately four to five cents per gallon decrease over this period. Once this occurs, we expect prices to stabilize at these lower levels. Then, a gradual rise is expected into the winter season. We must remember that our oil imports are derived from many unstable countries around the world. So a careful watch must be maintained on Iraq, Venezuela and Nigeria. These are the most problematic countries, yet all OPEC policies must be considered. OPEC is meeting again on September 24th so please keep an eye on the results of this meeting.

Ask your current oil / natural gas supplier about ways to maintain and protect (caps & fixed pricing) your yearly budget in times of global and economic unrest. Put your mind at ease knowing you will never have to pay those high prices if or when the market spikes.

Anthony F. Corvino, Energy Marketing
Stuyvesant Fuel Service Corp.

Regulatory Update

A. <u>ConEd DSM RFP</u>

In June, Consolidated Edison (ConEd, the utility) issued an RFP for 125 MW of demand-side management ("DSM") reductions in several of its network areas in Manhattan, the outer boroughs and Westchester County. ConEd was seeking bids for projects that fit into narrow categories designed to avoid the need to upgrade its transmission and distribution ("T&D") system in those network areas.

While many ESCos, vendors, and some end users showed interest in the initial RFP, the restrictions and financial requirements imposed as the process was clarified over the summer led many to lose interest. Many DSM options were disallowed, and

Are you getting the most value for your membership dues? Make sure that the Buyers Forum web page is on your list of favorite web sites. Be sure to visit http://www.nyebf.org often. You can find information about upcoming Forum events, and you can read the latest edition of *Power Moves!*, the Buyers Forum's newsletter. Members can read archived editions of the newsletter, review presentations from previous events, register for upcoming events, explore analyses of complex issues being addressed by the Forum, and locate other members of the Forum. (Members who experience difficulty accessing the *Members-Only* section can contact David Bomke at david.bomke@nyebf.org.)

potential penalties for failing to deliver were difficult to quantify.

While the deadline was extended twice (and closed Sept. 5), it is unclear at this time how much demand reduction was bid, or where it is located.

B. <u>PSC Proposes 30-day Fuel Supply for Interruptible Gas Customers</u>

Due to the very cold past winter, some users of interruptible gas failed to maintain the required alternative fuel supplies (typically fuel oil) to avoid taking firm gas during interruptions. As a result, the NY Public Service Commission ("PSC") proposed establishing a minimum supply of alternate fuel at interruptible customers' sites. While later denied as "an urban myth," PSC staff had indicated that a 30-day supply would be required. On behalf of its members, the Forum protested this idea for a variety of reasons, not the least of which was the near impossibility of securing fire department permits for such large fuel supplies. PSC was also unclear if it meant 30 AVERAGE winter days, 30 of the COLDEST days, or 30 days of average annual usage.

Nothing further has been heard from the PSC on its proposal since comments were filed about 2 months ago.

C. <u>Impact of Demand Curve on Summer Power Prices</u>

In June, the NY ISO approved a Demand Response Curve. The Demand Curve process altered ISO pricing for capacity at the wholesale level by setting minimum prices regardless of market conditions as a means to attract financing of new generation projects. Over the summer, controversy erupted over attempts to make this change retroactive to the beginning of May (it was to have started in late May). In conjunction with others, the Forum signed on to a protest to higher levels at the ISO, but it now appears that a formal protest to FERC may be needed to reverse the retroactivity, which may have slightly raised our summer power costs.

Of greater importance, however, is the fact that the unusually cool summer would have (without the Demand Curve) resulted in lower average pricing for generating capacity, which is charged through the Market Supply Charge or may trickle down through some private power contracts. Under the Demand Curve, however, generators likely received a higher price in some months than normal market conditions would have provided.

During that same summer period, we saw two of the three largest suppliers in our area (Reliant and NRG Energy) go through difficult financial conditions (e.g., NRG's parent company declared bankruptcy) that, in effect, made securing of financing for new power plants essentially impossible.

Such firms continued to receive the higher revenue guaranteed by the Demand Curve, with no requirement that it be put toward new generation. While the Demand Curve is basically a $100 million experiment with ratepayer money, it remains unclear if it will yield any new capacity in the ConEd territory in the foreseeable future.

D. <u>New Standby Charges</u>

The PSC settled the distributed generation standby power tariff by allowing up to 15% or 1 MW of on-site generation exempt from such extra charges. This exemption helps those thinking about small DG systems for peak shaving or cogeneration, and discourages those with large systems (or planning them). This change doesn't take effect until February 2004, and forced some entities to shut off their photovoltaic units during this summer in order to avoid high standby charges while the PSC pondered the issues.

Lindsay Audin

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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