

# POWER MOVES!

Newsletter of the New York Energy Buyers Forum  
Late Winter 2004

Compiled and Edited by:

Michael Sanfilippo - Great Forest Inc.  
Daniel Levin - Ernst & Young, Energy Advisory Services

## UPCOMING NYEBF SEMINAR:

### "DG For Free: No-Cost Backup Power."

**March 17<sup>th</sup> 2004, 9 – 11am**  
**780 Third Avenue (at 48th St.)**  
C-2 basement level auditorium  
New York City  
Sign-in and coffee starts 8:30 AM



**Admission:** Forum members (who paid their 2003 dues) have received free tickets by mail. Non-member admission is \$100, payable in advance or at registration (sorry, no credit cards). All attendees please RSVP to 212-419-1919 or to [events@nyebf.org](mailto:events@nyebf.org) by Friday, March 12.

## ENERGY MARKET UPDATE:

Energy markets continue their rollercoaster ways. Over the past three months, the natural gas 12 month strip prices have moved from \$4.70 per MMBTU to a little over \$6.00. 12 month NYMEX prices currently rest at \$5.64 supported by gas storage at 11% below the five-year average and questionable fuel oil supplies. The New York electric market determined to upstage the volatile natural gas market reached record setting prices in excess of \$200/MW hour (\$0.20/kwhr) in the Day-Ahead and Real-time

markets. All NYC based ConEd customers have seen significant MSC adjustments of 3.34 cents/kwhr making all parties check the calendar to confirm whether it is still winter and not the middle of summer. Moderating of both the natural gas and electric markets is expected with all eyes watching where the spring bottom will rest. D. Levin

## CONED STEAM RATE CASE PENDING ASSESSMENT EXPECTED

NYEBF members who use ConEd steam should be prepared for significant price increases from ConEd (see Regulatory Update and Steam Rate Increases within this newsletter). To mitigate ConEd's proposed cost increases, NYEBF is planning preliminary comments for the PSC. Due to the complex nature of the rate case it has been necessary for an outside steam system expert to be hired to assist in our efforts. Down the road, we will be working and sharing resources with the Owners Committee on Electric Rates (OCER) and will be approaching all steam-user members for a special assessment. More information is available on our website at [www.nyebf.org](http://www.nyebf.org)

## CHEAPER POWER FROM UPSTATE NY:

The Conjunction LLC Empire State Connection power line is designed to bring 2300 MW of power to the New York City area from upstate power plants. Conjunction LLC had been moving ahead with their 135-mile underground line, having overcome all regulatory and environmental issues. Most of the cable would be underground, though it would use the

*Members are encouraged to assist with the next issue of Power Moves! Contact Michael Sanfilippo at [msanfilippo@greatforest.com](mailto:msanfilippo@greatforest.com) or Daniel Levin at [dan.levin@ey.com](mailto:dan.levin@ey.com) to suggest future topics of interest to our membership, to contribute articles, or to provide other support towards the publication of this newsletter.*

## **POWER FROM UPSTATE NY, cont.**

underside of the Tappan Zee Bridge in Westchester County cross the Hudson River.

Upstate power is 1 to 3 cents/kWh cheaper than power generated In-City. Among the new sources that could be accessed with this new power line is the 1000 MW Athens power plant in Greene County, which recently came on line.

While the project has the blessing of the NY Public Service Commission and the NY Independent System Operator, a recent auction for its capacity had such disappointing results (very few power providers bid) that Conjunction LLC is rethinking its offering. The present state of investment in wholesale power systems is keeping many major projects sidelined.

If it is built, Conjunction LLC states that the output of the cable will be classified as In-City Generation Capacity (ICAP) and will likely reduce NYC end-use customers' ICAP costs over time by roughly 10-15%.

## **REGULATORY UPDATE:**

The Forum continues to monitor and/or intervene in a variety of issues. Following is an overview of the most important issues that were recently settled or are still pending before the NYPSC, and what each means to Forum members.

Executive Summary – The most significant issues before the NYPSC relate to proposed rate increases in the delivery rates for steam and natural gas. A larger electricity rate case is on the horizon, but Con Ed has not yet filed papers detailing their rate requests.

Various other issues (listed below) are combining to result in increases in energy delivery rates. These delivery rate increases are comparatively small, relative to the recent market-based price increases in wholesale natural gas. The economics for on-site distributed generation (DG) are, however, starting to look a bit better, though the technical barriers surrounding installation remain high.

The bottom line of these matters is that we are faced with a burst of regulatory activity greater than we have seen in the past 3 years. ***It is essential that***

***Forum members renew their membership by paying their 2004 dues, without which actions on these matters could not be supported.***

Steam Rate Increase – Con Ed is proposing a three-year rate increase (starting October, 2004) that would raise annual rates on average by 14.6%. Many steam customers may, however, see annual increases in the 20-25% range, with major impacts on monthly budgets due to proposed changes in the rate structure. Two big changes are being proposed: a shift to a steam demand charge that would replace 20-30% of the usual \$/Mlb steam rate, and an option to flatten one's fuel adjustment charge by buying the fuel component of steam in advance. While the impetus for this rate increase is the poor financial performance of the steam system (dropping sales and increasing costs result in poor rates of return), there is some basis for a rate increase due to the economic downturn since 9/11. This would be the first increase in 3 years, and Con Ed would hold rates steady for 3 years under its proposal. The Forum sees a variety of ways this proposal may be challenged or improved. Members may see a more detailed discussion at the Forum web site ([www.nyebf.org](http://www.nyebf.org)).

***Forum members using steam need to take note of the structural rate changes being proposed by Con Ed.***

- All steam users would see a steam demand charge on their bills, but only 10% of steam customers would get demand meters. The remainder would see a demand charge based on an allocation of peak steam load by rate class. In other cities where steam charges are paid, nearly all customers have steam demand meters.
- About 10% of steam customers (the largest 180 out of about 1800) would receive new steam meters that measured monthly peak demand during the winter period between 6 AM and 11 AM. In general, any facility heating with steam that is over about 300,000 square feet would fall into this category.
- A new Rider E - Negotiated Steam Fuel Cost, would allow a customer to negotiate the fuel cost portion of his steam rate for a fixed volume of steam over a defined time period (e.g., a year or more). The

Forum first suggested this process to Con Edison over 6 years ago. The Forum plans to offer a variety of ways to improve Con Ed's proposal.

- Two changes could impact steam users planning to install DG systems. Con Ed wants a hefty (47%) increase in steam SC 4 (standby steam rate), which would apply to any facility in which heat from a DG system was used to supplant steam usage. Con Ed also wants to abolish SC 6, which would allow steam users to transfer excess steam from a DG system to other facilities using Con Ed's steam system.

A variety of other changes are proposed, including using steam revenue to pay off environmental cleanups of pre-war Manufactured Gas Plants.

Simulations of some members' steam bills under the existing and proposed rates indicate that those with the ability to tightly control their heating and also using steam for cooling may see only a few percent overall increase in their annual steam bills. Summer cooling with steam could become 7-10% cheaper. Those who cool electrically and must maintain normal night time temperatures (e.g., hospitals, hotels) may see significant (20-30%) increases in their annual steam bills. Due to the application of the proposed steam demand charge for the November through April period, all customers could expect to see major jumps (35-130%) in their bills for the November and April shoulder months.

Conspicuously absent from Con Ed's filing is any discussion of its need to upgrade and maintain the steam system to address the steam pressure failure during the August 14, 2003 blackout. Due to a lack of backup power for its distribution system instrumentation, pressure was lost for 96 hours and was not fully restored until the following Sunday night. Many firms dependent on steam for air conditioning had to shut down on Friday morning (including the American Stock Exchange) Were such a pressure failure to occur during winter, results could be disastrous, especially for apartment houses.

Con Ed's summary of its filing may be found at: <http://www.coned.com/documents/Nov2003SteamFiling.pdf>. The Forum's preliminary analysis of the filing may be found at [www.nyebf.org](http://www.nyebf.org).

Natural Gas Delivery Rate Increase – For many of the same reasons cited in the steam case (i.e., increased costs during an economic downturn), Con Ed is seeking a 9.8% increase in the rates it charges to deliver natural gas, most of it to be collected from firm (as versus interruptible) gas customers. This will be the first increase in gas delivery rates since 1995, and Con Ed is proposing an increase that would remain constant for three years. Based on an analysis of Forum members' gas usage, the steering committee determined that the proposed rate change would not sufficiently impact our members to merit spending Forum resources on this case.

Westchester MAC/MSL Settlement – The MAC/MSL electric rate differentials between NYC and Westchester County were decided by the PSC in Westchester's favor in November. The Order included a three-year phase-in period. The City is contesting the Order and requesting a ten-year phase-in. Implementation will mean a small increase in delivery costs for New York City customers (on the order of .3%) and a significant decrease (about 2.6%) for Westchester customers.

Demand Curve (DC) – Several issues related to the DC have arisen and the Forum continues to monitor them as an ISO participant. While a refund of possible overcharges from May, 2003 is being sought via FERC, there is no news to report on that case at the moment.

Power for Jobs (PfJ) – Many Forum members receive discounted power from the New York Power Authority (NYPA) under this program. Due to State budgetary problems, PfJ may be cut back or eliminated for some during 2004. The Pataki budget included only stripped-down funding for this program, but a definite answer on its future will not be clear until the State budget is passed much later this year. In the meantime, any PfJ contracts that expire during 2004 will cause recipients to be placed back on utility service (or push them to contract with a marketer), thus losing their discounts until the budget is settled. At that point, some PfJ recipients may receive a reduced discount, on a case-by-case basis. Forum members whose PfJ contracts expire before October should start preparing now for a budgetary "bump."

Distributed Generation (DG) tariff changes – Two changes have occurred that benefit some DG owners and hurt others. New small ( $\leq 1$  MW) DG systems that also use generator waste heat will probably be the major beneficiaries of these changes. The first change exempts power plants of 1 MW or less that use renewable energy sources or recycle waste heat (also called “combined heat and power” or CHP) from standby charges. Other DG systems may see increases in standby charges. Firms in that category need to check the new tariff to see how best to manage those changes.

All DG systems using natural gas get a slight benefit from the recently-announced reductions in gas delivery charges for power producers. While the reductions vary with the size of the plant (check the tariff for details), smaller plants again benefit the most. Together, these rate changes will reduce operating costs for DG systems, noticeably improving their economics.

#### **NYEBF / OCER MERGER UPDATE:**

The legal work for the formal merger of NYEBF and OCER is almost completed and the consolidation is imminent. From our perspective, the timing could not be better. Activity in the regulatory arena has been moving at breakneck pace. In addition to the recently filed steam rate increase, there will be an electric rate filing this spring. Challenging both of these rate cases will place a large strain on intellectual resources as well as capital -- another reason to join forces. We also look forward to participating in the challenges of increasing electrical capacity in NYC. The consolidation of the two organizations will allow for a much louder voice for all of our constituents.

#### **NEXT FORUM EVENT:**

Our next event is scheduled for May 20, 2004 and will focus on “New Options for Real-Time Demand Management.” We will review ways to access power directly from the ISO’s spot market, the pros and cons of Con Ed’s Real Time Pricing tariff (Rider M), new software for managing real-time demand, and incentives to pay for it.

#### **GSA GREENS U.N. AND OTHER PUBLIC FACILITIES:**

Recently GSA awarded power procurement contracts that represent the Northeast and Caribbean region's largest green power procurements ever and one of GSA's largest green power awards in agency history. Contracts worth \$27 million were awarded to Con Edison Solutions, Constellation New Energy, and Liberty Power to provide an estimated 270 million kWh. Nearly 25 percent of the contract's electric requirements will be generated from renewable energy sources, such as wind power farms and biomass generating facilities.

These two and three year GSA contracts will provide green power to many well known public facilities throughout New York City and Westchester County, including the United Nations, Jacob K. Javits Federal Building in New York City, the nation's 3rd largest Federal facility. GSA's customer's under these contracts include the American Red Cross, the Bureau of Prisons, EPA, Coast Guard, Social Security Administration, National Park Service, Department of Veterans Affairs and Smithsonian Contact: Brian K. Magden, Regional Energy Coordinator, General Services Administration (Northeast and Caribbean)

*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.*

#### **New York Energy Buyers Forum**

Bowling Green Station  
PO Box 284  
New York, New York 10274-0284  
Phone: 212.419.1916  
Fax: 212.419.1998

[www.nyebf.org](http://www.nyebf.org)      [info@nyebf.org](mailto:info@nyebf.org)

**Jay Raphaelson, Chair**  
**Yvette Wright, Vice Chair**  
**David Bomke, Treasurer & Secretary**  
**Lindsay Audin, Acting Director**