POWER MOVES!

Newsletter of the New York Energy Consumers Council
August 2004

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YOU ARE NOW A MEMBER OF THE NEW YORK ENERGY CONSUMERS COUNCIL (NYECC)

On June 24th, NYECC's board of directors, comprised of many of the former board members of the New York Energy Buyers Forum (NYEBF) and the Owners Committee on Electric Rates (OCER), held its initial organizational meeting and champagne toast at our new headquarters in 11 Penn Plaza to commemorate the consolidation of the two groups. In early August, the NY Secretary of State accepted the consolidation, making NYECC the single largest and most powerful energy consumer advocacy and educational group in New York State. The new Board of Directors and committee members listed below are now fully engaged in efforts that will demonstrate our strength in the coming months and years. Members are encouraged to participate in the new committees. To do so, email david.bomke@nyecc.com

NYECC's Officers are as follows:

Co-Presidents:
Peter L. DiCapua & Jay Raphaelson
Vice Presidents:
Timothy J. Clancy, Yvette Wright
Gerard V. Schumm, Len Mellusi
Secretary:
David Bomke
Treasurer:
Ed Strauss

Standing Committees:

Finance Committee:
Ed Strauss, Chair; Tony Cartagine
Membership Committee:
Yvette Wright, Chair; Jenna Rose, Diana Sweeney
Education Committee:
Tim Clancy, Chair; Tony Campbell; Frank Lynch
Newsletter Committee:
Michael Sanfilippo, Chair; Dan Levin
Technical Advisory Committee:
Lindsay Audin, Chair; Mario Perciavalle, Len Mellusi
Regulatory Committee: Jay Raphaelson, Chair; George Diamantopoulos, advisor; Marolyn Davenport, Ed Strauss, Lindsay Audin, and Louise Morman

Resident Kibitzer: Herb Rose, Chairman

Board Members enjoy a sip of champagne

Ad Hoc Committees:

Transitional Committee: Diana Sweeney, Chair
David Bomke, Ed Strauss, Yvette Wright
Marketing and Publicity Committee:
Michael Sanfilippo, Chair, Louise Morman
Executive Director Search Committee:
Peter L. DiCapua & Jay Raphaelson, Co-Chairs
Herb Rose and Mario Perciavalle

NYECC Co-Presidents Peter L. DiCapua and Jay Raphaelson

September 15th Educational Seminar:
"New Energy Challenges: Budgeting, Options and Services"
8:30 AM – 2:30 PM (includes luncheon)
One Bowling Green, Basement Auditorium
(in the Financial District)
Members - $50
Non-Members - $100
(watch for the forthcoming flyer)

HIGHLIGHTS OF CON EDISON'S PROPOSED ELECTRIC RATE HIKE

In the first rate case focusing on transmission and distribution (T&D) issues since 1994, Con Edison is proposing a 3-year rate increase totaling about $1.015 billion (1st year impact would be $550 million). While changes to the Monthly Adjustment Charge (MAC) will also occur, this rate case does not involve and changes to Market Supply Charges (MSC) or have any direct effect on rates charged by marketers.

Con Ed's rationale for such a large increase stems from a variety of increases in its operating costs (including pensions and taxes), upgrades to the T&D system, a claimed need for a higher rate of return on its infrastructure investments, and the settlement of many unrelated non-recurring financial issues. It also claims that costs for delivery service to customers of the New York Power Authority (NYPA), which are mainly NY City and State properties, have become significantly higher than its revenues from that service.

Potential Impacts of the Rate Hike

Under Con Ed's proposal (which is being analyzed by several dozen parties to this case), all rate classes will see higher T&D charges. Overall, Con Ed is seeking about a 20% increase in average T&D rates, with the time-of-day SC 4 (commercial redistribution) and SC 9 (general large) customers seeing the lowest increases (about 10-12%). Residential customers (i.e., SC 1 and 8) may see T&D rates jump by 22-26% during the 3-year term, as may smaller SC 4 and 9 customers. Those taking power from the NYPA (e.g., the City, Power for Jobs, Power Downtown, and other economic development rates) are targeted for the largest hike (about 42%). To approximately translate T&D rate hikes into overall bill impact, divide by 3.

Of special interest to customers with hybrid chiller plants (i.e., those using electric and steam or electric and gas chillers) is Con Ed's proposal to levy standby service charges as though such facilities had standby power generation. Based on its submissions to the PSC, Con Ed would charge an extra $60/kW/yr, based on a facility's <u>entire</u> peak load (not just that of his chiller plant), which is roughly a 25% increase in annual demand charges.

Con Ed is also planning to more than triple the cost of Direct Current (DC) service as a way to encourage those customers to install rectifiers or otherwise cease taking such service.

Mixed into the overall rate hike is a variety of costs and credits that will add to or reduce the MAC at various times. They include:

- $100M in World Trade Center repair costs
- ~$600M in sales of 1st Ave. properties
- Recovery of ~$100M in stranded costs
- Payback of $95M in transmission credits
- $58M in targeted DSM programs.

Depending on how and when these items are handled, the MAC charge may vary even more than we have seen since its initiation in 1998.

General Approach

The NYECC Board authorized a budget of $150K to fight this increase, and hired Power Economics, Inc. (PEI) as its consultant. PEI was responsible for uncovering the Enron tapes you heard about on the news.

Among the efforts to be pursued by PEI will be to challenge the magnitude of the increase and Con Ed's request for a higher ROE, and to block efforts by others to shift part of their increase to us. One-time big ticket items (like the WTC recovery) should be deferred or only taken at the same time as credits that balance them to avoid the MAC price volatility that would otherwise result.

Those hybrid chiller standby charges have to go, along with various expensive trinkets (e.g., Con Ed wants a private weatherman, a satellite uplink truck, and some executive perks) on Con Ed's wish list.

As in the steam rate case, Con Ed is looking to eliminate penalty and incentive mechanisms for containing costs it seeks to pass on to customers, and that effort must also be opposed.

New Issues to Raise

This rate case also opens the door to seeking new options for better service and pricing. The MAC needs to be stabilized (instead of the present wide monthly swings that play havoc with our energy budgets). To avoid another protracted steam blackout, emergency generators at the steam plants are needed. NYEBF raised this issue right after last August's blackout, and, in February, the PSC issued a report calling for a study of exactly that option.

It's also time for Con Ed to move into the 21st century by offering (as presently provided by many other utilities) up-to-date electronic billing, web access to interval data, an on-line rate calculator to simulate rate options, etc. Con Ed wants to expand automated metering to cut its costs, and efforts are needed to maximize the use of that new equipment to expand customer options for energy billing and information.

Schedule for This Case

For the past 3 months, Con Ed has been responding to questions from interveners in the rate case. Testimony from those parties is due August 25, after which rebuttals and other procedures will follow. To ensure our success in this venture, we need all members to pay their dues as soon as possible. If you need further information or a fresh invoice, email david.bomke@nyecc.com.

Litigation before Administrative Law Judge (ALJ) Gerald Lynch will likely stretch through the winter, and we need to be sure there's enough money in the "war chest" to see us through to a successful conclusion. Once settled, new rates will go into effect May 1, 2005.

STEAM RATE CASE SETTLEMENT

The Joint Proposal (JP), accepted by most intervening parties, includes a $49.6 million increase in the 1st year and a $27.4 million increase in the 2nd year. **Steam rates will rise (on average) about 4.5% starting Oct. 1, 2004 with a similar increase starting Oct. 1, 2005.**

During the 2-year plan, Con Edison (CE) will install steam demand meters and conduct dummy demand billing for most SC2 and SC3 customers using over 14,000 Mlbs/yr.

Under a new Rider E, steam users may purchase the fuel used to make their steam, thereby controlling their fuel adjustment charges. They may also aggregate steam purchases for multiple accounts. Customers taking such service will receive a credit for any unused fuel if the customer used less than the agreed upon volume of steam.

The customer service charge will rise in each of the two rate years as $2.2 million in fuel costs associated with the production of steam is being shifted from a volumetric to a fixed customer charge in each year.

To settle various issues in this rate case, CE will take a one-time charge against pre-tax earnings of $6.2 million. This charge has been factored into the 2nd year rate increase.

The mechanism for controlling steam line losses is being changed from a percentage of total production to a variance from a set range between 4,322-4,541 MMlbs. CE may recover 90% of costs associated with line losses exceeding 4,541 MMlbs and will receive 10% of the savings below 4,322 MMlbs, with line loss costs capped at $5 million.

East River Re-powering Project (ERRP)

Key in securing low steam pricing during the 2-year settlement is operation of Con Ed's new ERRP, which improves steam production efficiency. All ERRP carrying charges and fuel savings allocated to steam would flow through the Fuel Adjustment Clause (FAC) plant costs subject to recovery capped at $685 million (expected construction costs were considerably lower).

If ERRP is not in service by January 2005, CE will provide a credit for estimated net benefits from fuel savings (~$36 million per yr.) on a monthly basis through the FAC. Credits provided to customers in January, February and March would be recuperated by CE over an 18-month period without interest starting in April 2005. Recovery for any credits provided to customers after March must be approved by the PSC.

The JP continues the current allocation of operating costs of the 74th and 59th Street Steam stations to CE's electricity business. After the sale of the First Ave properties is completed, the steam business' share of the proceeds will offset the costs of those stations and upon PSC approval the costs will be transferred to steam.

Both rate plans are based on a return-on-equity (ROE) of 10.3%. If the return on equity exceeds 11.75%, earnings above that level will be shared 50/50 between customers and shareholders.

CE can reconcile costs exceeding the amount allowed in rates for costs associated with property taxes, interference other than company labor, plant additions, pension-related costs, environmental remediation and pipeline integrity. WTC capital costs for repairs may be deferred subject to offsets for cost recovery from government agencies.

CE's ability to defer expenses is limited by its earnings. If ROE is above 11.75% but below 15%, CE may defer only 50% of eligible expenses. If ROE is 15% or more, CE cannot defer otherwise eligible expenses.
CE is required to submit by 6/30/05, new depreciation studies evaluating the impact of infrastructure improvements/replacements on the gas and steam systems; and defer tax refunds not reflected in rates, except for up to 14% of the refund.

The JP contains an Economic Development Plan administered by CE in coordination with a Steam Business Development Task Force:

- The SC5 tariff (negotiated steam rate) will be modified to attract/retain steam customers
- Customers further from existing steam main lines may seek extensions or reinforcements to connect them to the steam system
- Efforts to grow the steam system will be pursued.

CE is in coordination with local and state agencies to develop energy infrastructure plans for areas of NYC that are undergoing extensive redevelopment. CE will contract for a steam production study to examine the company's present costs of production at each steam unit, estimate costs for the next 20 years and analyze re-powering costs.

NYS PSC's AUGUST 14th BLACKOUT REPORT RECOMMENDS IMPROVEMENTS SHOULD BE MADE TO CON ED'S STEAM SYSTEM:

In February, the NYS Public Service Commission released its initial study of the impacts of the August 14, 2003 blackout. The full report can be found at: http://www.dps.state.ny.us/fileroom/doc14463.pdf.

The executive summary and pages 105-115 provide information pertaining to the impacts on Con Edison's steam system, which was completely disabled within two hours of the electrical system shutdown. One of the five most important conclusions from the study, listed in the executive summary, is "Con Edison did not have a plan in place for the restoration of the steam system under conditions of a total shutdown". In fact, it took a full four days before the system was fully operational again.

The delay with restarting the steam system happened for a number of reasons but primarily "Because none of Con Edison's steam generation plants is capable of a blackstart without electric supply from an outside source, the utility could not commence restoration of steam service by using those units until after electric service was restored". Special attention was given to the safety of the restoration of the system as it was feared water hammers could potentially cause severe equipment damage and cause harm to the system workers. Of course, nobody knew what was going to happen because this was the first time the whole system shut down completely.

Recommendation # 4 listed in the executive summary states that "Con Edison should conduct studies and develop procedures to avoid a steam system shutdown or implement measures to facilitate a more rapid return to normal steam system operations as the result of an electric blackout". In fact, the NY Energy Buyers Forum, now one half of NYECC, is the only group that publicly raised the issue of blackstart of the system in the last year, during the steam rate case, and (so far) is the only group to have raised it as part of the electric rate case. We will keep you updated as progress is made.

ENERGY MARKET UPDATE:

As one of the leading forces behind electricity prices in NYC, the natural gas market has been anything but cooperative. Despite above average gas storage levels and consistent storage injections, the gas market futures remain in the \$5.60 to \$6.90 per MMBTU range. Prices are supported by record high prices for oil (\$45 per barrel) and concerns in the Middle East. Power markets in NYC, while high, are stable and remaining at around 10.3 cents/kWh (22% above last year) for a fixed price 12-month contract. Lastly, we have been fortunate with mild weather, but moving forward markets are likely to be affected by (a predicted) above normal occurrence of tropical storms. As storms move through the Gulf of Mexico they cause natural gas production interruptions, reduce storage injections, and produce short-term price spikes. Enjoy the summer.

D. Levin – Ernst & Young.

More information is available on our website at www.nyecc.com. Members needing password or login help can contact david.bomke@nyecc.com

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

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