# POWER MOVES !

***November 2004***

A publication of the New York Energy Consumers Council (NYECC)
Compiled and edited by: Michael C. Sanfilippo - Great Forest Inc.
Contributing writers: Pradeep Kapadia - Kapadia Energy Services, Dan Levin - Ernst & Young,

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## NYECC Says <u>NO</u> To Electricity Standby Charges

As Con Edison's impending electricity T&D rate increase knocks at our door, many end users of electricity also facing what seems to be an ever-decreasing set of options from which to choose how New York City buildings are energized, heated and cooled.

One of the major components of Con Ed's proposed rate increase, which your membership dues are fighting right now, is a provision for Standby Electricity Charges for Hybrid Chiller and Thermal Storage Plants. NYECC's opposition to this provision may actually be working but we won't know for certain until a final agreement is reached. While this provision may not be amongst the largest components of Con Ed's proposal, it has the potential to become one of the farthest reaching.

Con Edison needs to ensure functionality of the local electricity grid if the alternatively fueled (gas, steam, ice) plants switch to electricity at a time of peak demand. What they seem to be avoiding is that the worst-case scenario is virtually impossible, that all plants running on either steam or gas would switch to electricity at the same time, overloading the system. These plants run on alternative fuels during times of peak electricity demand. They are increasing the reliability of the electricity grid while helping to shave off high peak demand and related prices.

The potential for added standby charges tips the economic scales against the use and future design/planning of non-electrically driven chillers. If adopted, this provision may be the piece of straw that slowly breaks the steam system's back. Eventually, a decreasing steam customers base will not only continue to drive up per-customer costs but it may eventually mean the demise of the steam system altogether. Steam is a unique NYC resource and should be something that is strongly encouraged, perhaps even encouraging or subsidizing its use, rather than the other way around.

Michael Sanfilippo - Great Forest Inc.

## Energy Pricing Information:

### Where Do You Get it, How Do You Use It?

When wholesale energy prices become more volatile, what does that mean to future *<u>retail</u>* energy prices? Budgeting requires sound pricing information, but many of us struggle to find reliable predictions of tomorrow's pricing. Deregulation exposes us to market fluctuations, but does not provide readily available or reliable retail market forecasts.

On **November 17**, learn about factors affecting oil, gas and electric markets, and how to find and apply energy price forecasting information regarding them.

**<u>Presenters:</u>**
Randy Rischard - IO Energy
Neil Gamson - US DOE
Mark Taddeo - Amerada Hess
Richard Card - Constellation New Energy

**Register by <u>November 12</u> by calling: (212) 419-1919**

Wednesday
**November 17th**
**8:30 AM - 11AM**
(sign-in and coffee starts at 8:30)

**Rockefeller University**
**Caspary Auditorium**
**1230 York Ave @ 66th (East Side)**

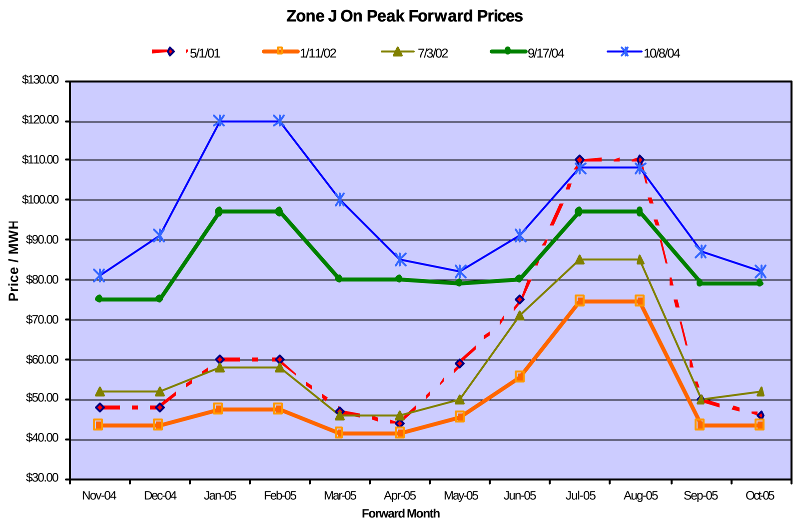
**FREE for NYECC Members**
**$100 - Non-Member**

## Shifting Commodity Focus within New York

Steven Wemple - Con Edison Energy

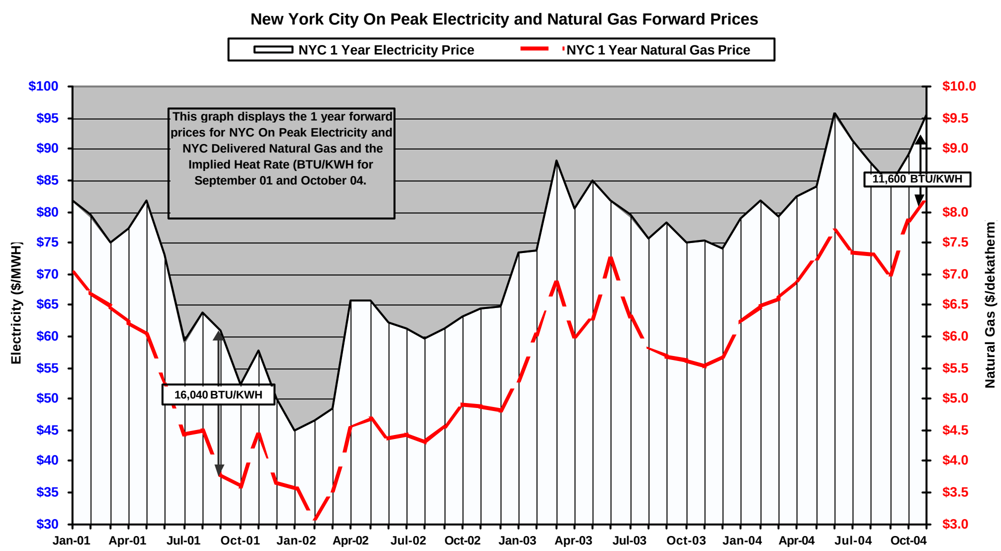
The dynamics of the electricity market have shifted since the New York Independent System Operator was established in 1999. Initially, supplies were very tight: the New York City capacity markets were slightly deficient at the start of the summer 2000 period, and the rest of the State market was deficient at the beginning of summer 2001. The tight capacity markets put upward pressure on retail energy prices, both directly through the capacity component of the supply charge and indirectly by increasing the implied heat rate, which is a measure of the price of energy relative to the underlying fuel costs. However, this upward price pressure was mitigated by relatively low natural gas and oil prices.

Over the past two years, we've seen a significant increase in the price of natural gas and oil which, in turn, has dramatically increased the cost of electricity in the shoulder and winter seasons. The chart to the right illustrates the run-up in power prices and highlights the fact that January and February are now the highest cost months.




At the same time, there has also been an increase in the reserve margin due to increased imports from PJM and New England and the construction of the 250 MW Keyspan plant in New York City and the 1080 MW Athens plant in the Albany area.

"We've seen a significant increase in the price of natural gas and oil which, in turn, has dramatically increased the cost of electricity in the shoulder and winter seasons." - Steve Wemple




These additional resources have mitigated some of the impact of the higher fuel costs by reducing the price for installed capacity as well as the implied heat rate. The chart above shows the relationship between the forward markets for natural gas and on-peak electricity and how the implied heat rate has actually declined from a peak of 16,040 BTU/KWH in September 2001 to the current level of 11,600 BTU/KWH. **(continued on page 5)**

## Con Ed Briefs Energy Advocates

Shown here, left to right are NYECC Co-President Peter L. DiCapua (l), Con Edison President/CEO/Board Chairman Eugene R. McGrath, and NYECC Co-President Jay Raphaelson, following a recent briefing by Con Edison to the newly formed energy advocacy group.

McGrath highlighted the advances the company has made, as well as the need for a rate hike (the first in ten years) based on the demand for upgrades and improvements in distribution and transmission, among other services.

## Natural Gas Market Update - Daniel Levin, Ernst & Young Energy Advisory Services

All those trying to understand the workings of the natural gas market are currently scratching their heads over the most recent market trends. Despite what could only be described as an extremely bearish storage situation the market continues to soar. Current natural gas prices, and particularly the recent run up in the gas futures' market are due in large part to the high demand and low supply/production conditions with oil. The details are as follows:

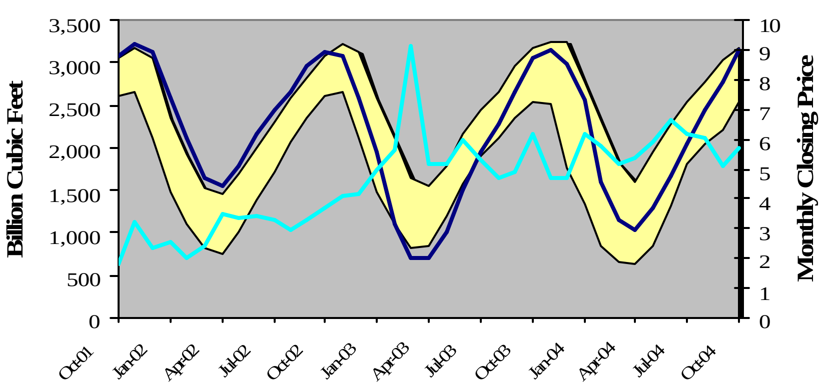
**Storage**: As of October 15th, there is 3,223 bcf (billion cubic feet) of natural gas in storage. This equates to a volume of 241 bcf (7.4%) above the five-year average and 157 bcf above this time last year. Reaching an almost unheard of 3.3 bcf this year is now looking as a possibility.

**Weather**: Earlier predictions of a mild Nov/Dec have recently been changed to a "slightly colder than normal" prediction. This fact has been partially responsible for the most recent price increases (see chart two)

**Oil**: Oil prices continue to hover in the $54 per barrel range, and a number of industry analysts have stated that we could see $75 to $99 per barrel prices before things get better. To put this in perspective, at this time last year oil was selling for about $30 per barrel.

In order to get a historical picture, we have included a graph (chart one) that shows the five year average for natural gas storage (wide band), the actual amount of gas in storage (dark line), and the monthly NYMEX closing prices (light line). As you can see, the market typically responds to actual volume swings in relation to the five-year average. An example of this is March 2003, when supply fell well below the five-year average and the prices spiked to the $9.00 level. Looking at October 2004, we see storage levels very high and October's closing price (set about September 26th) at dreamy (as in "I wish I could get that price now") price of $5.72 per MMBTU.

**Chart One: Historic Natural Gas Supply and Prices**




Since October's price close on September 26th, the price of oil has risen from about $47 per barrel to $55 per barrel. With this move, the natural gas market has taken a large leap upward. Chart Two (on page 4) shows the historic market closing prices and the current futures price forecast. It is evident that the significant uncertainty in the oil market has placed a large premium on the natural gas market. It is safe to estimate that the "oil premium" has added about $2.00 to $3.50 per MMBTU to the prices in the natural gas market. **(continued on page 4)**

# A New Way To Control Winter Steam Pricing

### Con Edison's Negotiated Steam Fuel Cost Program Offers Price Stability for Fuel Adjustment Component of Steam

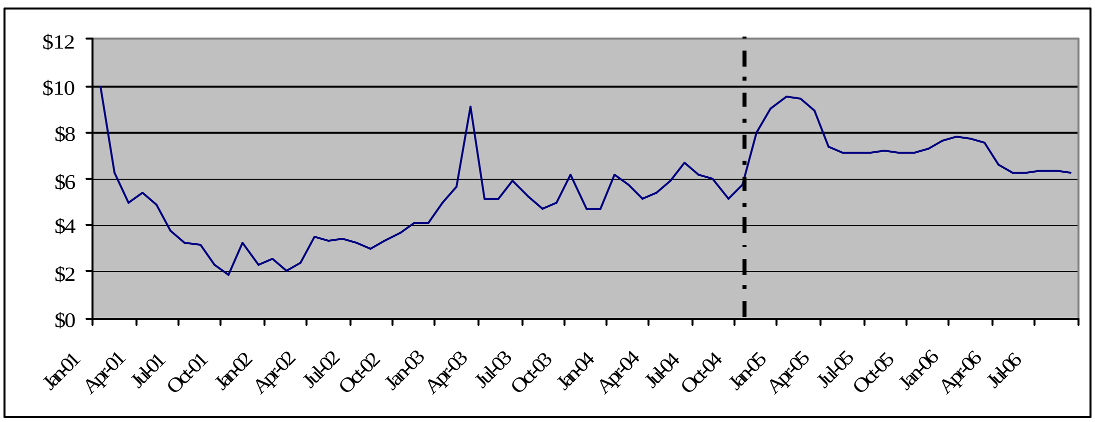
As part of the steam rate case settlement, Con Edison is offering the first phase of a Negotiated Steam Fuel Cost Program. This program will allow Con Edison's steam customers to secure a fixed price for a portion of their steam fuel cost for the winter period, December 2004 through March 2005. The Negotiated Steam Fuel Cost Program is designed to reduce volatility in the customer's fuel adjustment charge, but the fixed price may ultimately be lower or higher than the standard (*i.e.*, unhedged) monthly market price.

Enrollment will take place in the first two weeks of November, so interested customers need to understand it now. The New York Energy Consumers Council encourages its steam system customer members to give serious consideration to this program as quickly as possible.

Interested customers can call the Customer & Business Services (CBS) of the Steam Business Unit with questions or to enroll in the Negotiated Steam Fuel Cost Program (212-460-2011). CBS will fax a Customer Base Agreement and inform the customer of the steam volumes (i.e., number of Mlb per month) eligible for a fixed price during each of the four winter months. To reduce the customer's exposure, enrollment in this program is limited to 50% or less of a customer's average monthly usage during comparable months over the past two years.
Between November 1 and November 12, customers interested in participating in the program must notify the Company by returning a signed Customer Base Agreement that also stipulates each month's volume of steam that the customer is willing to enroll into the program. This agreement, with its anticipated enrollment volumes, authorizes the Company to obtain a fixed fuel cost (for each of the four months) on the Customer's behalf and notifies the Company of the method for confirming acceptance of the fixed cost (e.g., fax or e-mail). **(continued on page 5)**

## Natural Gas Market Update **(continued from page 3)**

**Chart Two: Historic and Future Natural Gas Prices**




In conclusion, we have to address the most obvious question, "when will this market improve"? At present, the oil industry appears to have a long term problem with the growing demand in China and India and a shorter term problem with supply and production issues in Nigeria, Russia, Norway, and the Middle East. Oil experts expect no significant changes for the next six months.

Natural gas on the other hand, while presently spinning out of control, can at least be grounded in the undeniable facts that supplies are ample and that we have gone through two very bearish injections seasons. It is difficult to foresee continued natural gas prices in the $9.00 to $10.50 per MMBTU range when supplies remain above the five year average. A best case scenario is sustained gas volumes above the five year average to trigger a softening of the natural gas market…meaning a $5.50 to $6.25 NYMEX price in the next three months. **end**

## Shifting Commodity Focus (Continued)

With several additional plants under construction - East River Expansion expected on line this winter, Polletti and Bethlehem for next summer and SCS for summer '06 – there will be continued downward pressure on the implied heat rate as the newer, more efficient units displace older units. This additional capacity will also help maintain or add to the existing surplus and is likely to result in relatively low installed capacity prices. However, absent a decline in the underlying fuel costs, the total price for electricity is likely to remain high.

## NYPA Power For Jobs Program Update

NYPA's Power For Jobs economic development program has entered into the extended benefits period and for those of you who aren't yet sure what to expect in the coming months, you are not alone. The good news is that the program's funding has been increased $40 million and its cost savings are going to be around at least until the end of 2005. The bad news is that customer savings may not be as favorable as in years past.

Participants had two options to choose, either a continued contract directly with NYPA or a rebate based on a calculation that uses your current monthly rates as the base while subtracting last years rate to generate a delta. This delta is multiplied by your allocation and you are reimbursed by check. The accounting still needs a bit of clarification but that is the general framework.

For those that opted to extend their contract with NYPA, it is expected that future savings will not be as great as with the original deals... because participant load is being bid in November 04 and in case you haven't been paying attention, energy isn't exactly cheap right now.

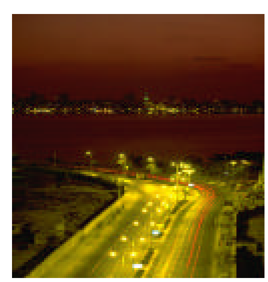
Whether the Power for Jobs program will be extended beyond December 2005 will be a question for next year's NYS legislative agenda. Stay tuned!

**Whether the Power for Jobs program will be extended beyond December 2005 will be a question for next year's NYS legislative agenda. Stay tuned!**

## Control Winter Steam Pricing (continued from page 4)

The Company will then use the method specified by customers in their Base Agreements (e.g., fax) to notify them of the established fixed cost and the time frame within which the customer may accept the Company's fixed price offer for the volume of steam specified in the Base Agreement. To accept the offer, a customer must notify the Company by returning the signed form within the specified time frame in accordance with the communication method specified by the customer in the Base Agreement. In exchange for the price guarantee promised by this program, a customer who accepts the Company's offer will be required to pay the agreed-upon fixed steam cost, in lieu of the average cost of fuel, for the agreed-upon volume of steam for the specified months.

## On the Horizon



Several items of interest may begin to affect us in the near future. These issues and any progress made in the coming months and years will be addressed by NYECC's technical advisory and educational committees and will be reported to members thru this newsletter.

The first item is that of New York States' Renewable Portfolio Standard (RPS). In Late September, "The New York State Public Service Commission (PSC) voted to adopt a renewable energy policy designed to increase to at least 25 percent by 2013 the proportion of electricity sold to consumers in New York State that is generated from renewable resources...The policy framework establishes a 25 percent goal and a start date of January 1, 2006"

Also, keep an eye out for mention of the repeal of the Public Utilities Holding Company Act (PUHCA) which may throw competitive supply into a tailspin.

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11 Penn Plaza–Suite 1000
New York, NY 10001-2006

Phone: 646 473-1419
Fax: 646 473-1427
E-mail: info@nyecc.com

**Educating Energy Consumers**
**Toward Economical Energy Options**

A consolidation of the New York Energy Buyers Forum (NYEBF) and the Owners Committee on Electric Rates (OCER), NYECC is the largest major energy consumer advocacy group in New York. We continue to build on our nearly 60 year history and look forward to saving our members, as well as many other local energy users, another billion dollars thru intervention and education.

**www.NYECC.com**

## NYECC benefits its members

In 1981, my company was a fledgling. I was performing energy audits for schools and hospitals under the Technical Assistance program from Federal grants and wondering what I would do if that assistance ever dried up. The schools, colleges and hospitals benefited greatly from this free service, using the audits to plan and implement energy efficiency upgrades. It was a good niche business, but then the grants dried up and I had to find another niche. To be successful as a small business in the energy field is to find a series of niches as you respond to the opportunities as they present themselves – energy efficiency, management, procurement, de-regulation, forecasting, advocating, etc.

After all these years, I pride myself as an expert in the energy field, and for most of my customers, I am. However, there are no real energy experts in New York when the business of energy changes like it has over the past several years. What happened three years ago with new generators is already ancient history, and the proposed rate hikes of 2005 will become a mere footnote in 2007. If you're an expert here, you're an expert in a narrow field for a short period of time. This is where the NYEBF, now joined with OCER as NYECC, comes in.

The NYECC has been my resource for niches ever since I joined as a founding member of the Steering Committee in 1997. Whatever my latest niche is in this field, I will find a better expert in that niche at the NYECC. Most likely, he or she is an associate that I have known for a long time, but whom I've not needed before. Most likely, it is someone with whom I can team up to add value to my customer. Most likely, it will be someone who truly cares about the New York energy consumer and who knows that he or she can make a big difference through volunteering his or her time. Occasionally, it is a client who knows that my connections with the NYECC will ensure that my knowledge is deep and my resources reliable.

It is obvious that the NYECC has saved New York energy consumers tens of millions of dollars over the years, advocating and intervening in every worthy case. What may be less obvious is that this group of results-proven experts and battle-tested professionals is a resource for each individual member, client or consultant. The value of these relationships alone is worth my consultant's membership fee.

My company celebrates its 25th anniversary in 2005, and has now expanded to the four corners of the United States. I have yet to find an organization in any other state that delivers the value, knowledge and even friendship that I have found in the NYECC.

Pradeep (PK) Kapadia
President & CEO
October 2005