



INSIDE THIS ISSUE

Regulatory Update
Page 1

DON'T REACT! PSC Mandates Reactive Power (KVAR) Rates
Page 2

Outlook for New York Capacity Prices
Page 3

Market Update
Page 4

REGULATORY UPDATE

New Electric Rates
Anticipated April 2010

- \$420.4 Million/year next three years
- 9.99% increase in delivery rates
- 3.8% increased bill impact

Proposed Steam Rate
Increases Starting in
October of 2010

- \$128.8 million
- 37.8% increase in pure base revenue
- 18.2% average bill increase
- Four-Year Rate Plan of \$66.1 million per year
- + Special Steam Proceeding!

Natural Gas Rates could climb by \$160.8 million or \$115.5 million per year for three years.

POWER MOVES !

FEBRUARY 2010

A publication of the New York Energy Consumers Council (NYECC)

Compiled and edited by: David F. Bomke, Executive Director and Daniel Levin, Co-President

REGULATORY UPDATE

BY DAVID F. BOMKE

CON EDISON ELECTRICITY

In May of 2009, Con Edison filed a request for an additional \$854.4 million in revenue, to become effective on April 1, 2010. Con Edison also asked for an additional \$462 million starting on April 1, 2011, as well as an additional \$391 million in increases, starting on April 1, 2012. The cumulative three-year impact of these increases would be \$3.9 billion.

The NYECC and other rate case intervenors began dissecting Con Edison's multi-ream application, asking hundreds of questions in search of greater clarity about the foundation for Con Edison's request. We also met with our members to identify consumer concerns. Formal negotiations began on September 22, 2009 and led to the successful negotiation of the first three-year Joint Proposal (JP) for Settlement in five years.

If the Public Service Commission (PSC) approves this JP next month, new rates will go into effect on April 1, 2010. These new rates would reflect a total three-year revenue impact of \$2.5 billion — fully \$1.4 billion less than Con Edison had claimed necessary. Annual increases of \$420.4 million for the next three years will drive increases of nearly 10% in delivery rates, with an estimated total bill impact of 3.8% per year.

CON EDISON STEAM

In November of 2009, Con Edison filed a request for an additional \$128.8 million in revenue, to be reflected in new rates starting on October 1, 2010. This increase represents a pure base revenue increase of 37.8% and translates into an average bill increase of 18.2%. That filing proposes an unprecedented four-year rate plan to lessen the impact of this requirement, substituting four annual increases of \$66.1 million instead of the one-year rate increase of \$128.8 million. The special proceeding initiated by the PSC in January of 2009 could generate significant incremental cost implications for Con Edison's steam customers. The NYECC is currently an active participant in both these cases.

CON EDISON GAS

When Con Edison requested approval to increase steam rates, they also requested authorization to increase natural gas revenues by \$160.8 million, to be incorporated into new rates that would also go into effect on October 1, 2010. This increase would translate into delivery rate increases of approximately 22.14%, or a total bill increase of approximately 8.4%. As with the requested steam rate increase, Con Edison has proposed a three-year plan that would increase revenue by \$115.5 million per year. The NYECC is also an active participant in this natural gas case. 

PUBLIC SERVICE COMMISSION MANDATES REACTIVE POWER (KVAR) RATES IN 2010

BY DANIEL LEVIN, PRESIDENT LEVIN ENERGY ADVISORS, LLC / CO-PRESIDENT, NEW YORK ENERGY CONSUMERS COUNCIL, INC. & JOHN MUCCI, VICE PRESIDENT, ENGINEERING AND PLANNING, CON EDISON

In many electric markets around the country it is common for the utility to charge for KVAR, also known as Reactive Power. By definition, Reactive Power (KVAR) is thousands of VARs (volt-ampere reactive). It is the power needed to magnetize equipment (such as transformers, motors and relays). It produces the magnetizing flux that is required to operate this equipment usefully. However, the current associated with reactive power does no work at the load. The Electric Utility wires and transformers must be sized to carry the total current and dissipate the resulting heat, not just the current that does useful work.

Reactive power requirements contribute to energy losses incurred by utilities and their customers in the transmission and distribution of electricity. Although these losses are relatively small percent of all of the energy losses incurred in the production, delivery and utilization of electric energy, any loss reduction is beneficial to the system as a whole.

A recent order from the Public Service Commission states that "Reactive power tariff charges are necessary...to send accurate price signals to customers whose equipment imposes large reactive power requirements on a utility's delivery system. Reactive power charges, which reflect the utility's cost of providing reactive power should, therefore, be a component of the rate structure for the large customer classes. These classes of customers are likely to react to price signals and generally are able to install corrective equipment at their facilities to improve their power factors. All customers will benefit from loss reductions over time as system improvements are achieved through active participation by large customers who choose to reduce their reactive power usage, and, therefore, their reactive power charges, by installing on-site equipment to improve their power factors."

In order for Con Edison to implement the PSC's mandate, new meters capable of measuring reactive power will need to be installed. At present, Con Edison can only measure KVARs for customers whose peak demand falls between 1,000 and 1,500 kW. Starting in April of 2010, Con Edison will advise these customers of their actual levels of reactive power and will begin billing them for KVAR in October of 2010. As established Mandatory Hourly Pricing (MHP) requirements compel the installation of new meters for customers whose peak demand falls between 500 and 1,000 kW, those customers will also be provided with indications of their actual KVARs before they are actually billed for them. Finally, Con Edison plans to install new meters for customers whose loads exceed 1,500 kW, provide information on their actual KVARs, and then implement KVAR billing.

For more information on both reactive power and Con Edison's plans for implementing PSC-mandated billing of KVARs, you may wish to sign up for one of two half-day seminars that Con Edison is planning on March 18th and March 22nd. Contact Robert Sherman at (212) 460-4479 or ShermanR@coned.com. 

New York State mandates the billing of electric customers for their reactive power contributions. Con Edison rolls out their plans for compliance.

OUTLOOK FOR NEW YORK CAPACITY PRICES

BY STEPHEN WEMPLE

*VICE PRESIDENT, RETAIL AND REGULATORY AFFAIRS,
CON EDISON SOLUTIONS*

The New York capacity market has been very dynamic this winter. In November, the Linden Variable Frequency Transformer went into service, allowing 300 MW of capacity (and energy) to be imported into New York City from New Jersey. This incremental supply helped lower in-City capacity prices to virtual parity with Rest of State prices in December (\$0.78/kw-month) and January (\$1.85/kw-month). At the end of January, NYPA retired their 890 MW Poletti unit, causing in-City prices to increase more than four-fold to \$7.98/kw-month in February and Rest of State prices to more than double to \$3.45/kw-month.

For the upcoming summer, in-City capacity prices should increase because of the normal seasonal differential in generating plant ratings, which reduces the amount of summer supply relative to the winter. In addition, the NYISO is scheduled to increase the price of the capacity demand curves by 11% but the impact of this increase will be mitigated by the reduction in NYISO's forecast of NYC peak load. The peak load is used to determine the capacity requirement, and is forecasted to be 11,725 MW in 2010, or 2.7% less than the 2009 forecast of 12,050 MW.

The market for Rest of State capacity, which accounts for 1/3 of an in-City customer's obligation, is likely to be more dynamic and difficult to predict this summer. While the NYISO is increasing the statewide reserve requirement from 16.5% to 18%, the actual demand for capacity will decrease slightly because the forecasted peak load, which determines capacity obligations, will decline by 2.7% from 33,930 MW last summer to 33,025 MW in 2010. Two other factors that will impact the Rest of State market in opposite ways are:

- An increase of 8.5% in the price of the Rest of State capacity demand curve, and
- The election by LIPA to start physically importing 660 MW of capacity from PJM into the New York market over the Neptune high voltage DC cable. Previously, the NYISO had been modeling the Neptune line as a normal transmission line, with the reliability benefits of the line used to calculate lower state-wide and on-Island reserve requirements.

Another complication for the upcoming summer is a mismatch between PJM and NYISO capacity markets, with NYISO considering the month of May as the first month in the summer season and PJM considering it the last month of their winter season. As a result, capacity imports from PJM over the Neptune cable will not start until June, suggesting that Rest of State prices will increase initially in May and then decrease for the rest of the summer. 

A publication of the New York
Energy Consumers Council (NYECC)

Compiled and edited by: David F.
Bomke, Executive Director and
Daniel Levin, Co-President

11 Penn Plaza - Floor 22
New York, NY 10001-2006

Phone: 212 356 0030

Fax: 212 356 0063

E-mail: info@nyeccc.com

*Educating Energy Consumers
Toward Economical Energy Options*

MEMBERSHIP VALUE

For 56 years, the NYECC, operating prior to 2004 as the Owners' Committee on Electric Rates (since 1953) and the New York Energy Buyers Forum (since 1992), has helped secure energy bill savings (avoided costs) for its members of approximately \$10 for every \$1 paid in member dues. No other organization is exclusively focused on the shared interests of large commercial, industrial, and institutional energy consumers in Con Edison's electric service franchise. The NYECC is committed to economic, reliable, and environmentally responsible energy production and use in New York City and Westchester County. NYECC members are committed to active control of their own energy destinies. Although NYECC's intervention in the legislative and regulatory arenas benefits all large consumers in Con Edison's territory – including both members and non-members, only NYECC members benefit from the organization's breadth and depth in specific issue advocacy at both Con Edison and the PSC. 



MARKET UPDATE

BY DANIEL LEVIN, PRESIDENT LEVIN ENERGY ADVISORS, LLC

