Polar Vortex Effect on Electricity Costs

presented by ERC and ConEdison Solutions

Q&A Session, May 20, 2014

Question: Were customers with utilities affected? Or, more importantly, will they pay for January in the future?

Answer: Different utilities have different pricing mechanisms that may vary by customer size. Customers on indexed or hourly-priced utility service paid the highest costs. For smaller customers, the experience this past winter will likely impact future prices when existing supply contracts are reset.

—Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: What law changed that would trigger the use of a "change in law" provision?

Answer: The change-in-law provision in most contracts is typically written to include changes in law, rules, and regulations. In this case, it was a change to a PJM tariff, a rule approved by FERC, which increased the existing $1,000/MWh offer cap for generators.

—Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: Can you please explain the guaranteed savings contract?

Answer: The guaranteed savings contract offers a discount off of what the customer would pay to the utility. We don't offer it in all service territories, but we do offer it for certain territories and for hourly customers in other territories. If you have accounts that you would like for us to evaluate, please email them to me at perezrac@conedsolutions.com, and I'll let you know if they're eligible.

—Rachel Perez, Channel Program Manager, ConEdison *Solutions*

Question: I'm currently locked into a supplier contract for 12 months, but I noticed an increase on my electricity bill. What can I do?

Answer: If you're currently locked into a fixed-price contract with another supplier and you notice an increase, it could be from pass-through costs in your contract. You are contractually obligated to absorb those increased costs. For a longer-term strategy, you could look into locking in a new contract for a future dated term on a fixed or a combination of fixed and index, depending on your risk tolerance.

—Rachel Perez, Channel Program Manager, ConEdison *Solutions*

Question: If January's weather events occur again, how likely is FERC to lift the cap again? How do you think FERC and electricity suppliers will react to extreme demand and consumption?

Answer: If conditions similar to this January were to recur, our expectation is that it's fairly likely that FERC will again temporarily lift the offer cap for generators. In fact, at last week's PJM annual meeting, one of the FERC commissioners, Tony Clark, indicated that would be a possibility to address the situation. They would lift the offer cap again to ensure grid reliability. It's up to each individual electricity supplier whether to absorb these costs or enforce pass-through or change-in-law contract provisions. Speaking only for ConEdison *Solutions*, we're committed to protecting our customers from increased costs, and we take every step required to maintain a true fixed price.

—Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: Will you provide a market forecast? Where will electric prices go in the next 24 months?

Answer: ConEdison *Solutions* doesn't provide market forecasts regarding pricing. Monitoring prices and market conditions, we publish newsletters in which we discuss market trends.

—Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: Isn't it true that most suppliers have a change in law provision?

Answer: Yes. Most do. Many also have bandwidth provisions. When we did our ERC survey work in 2013, we asked middle-market companies how familiar they were with different aspects of an electricity supply contract. We found very little awareness and understanding. It reminded me of cell phone company contracts. Very few people read the fine print. These conditions are typically in a supply contract and need to be addressed when selecting a supplier, as well as their history of passing through costs or holding the line. —James Moore, Ph.D., President, Energy Research Council

Question: It sounds like even fixed-price customers took a hit per the change-in-law provision. If so, what was the magnitude of this hit on a percentage basis of the fixed cost?

Answer: The ERC has published a research brief about the polar vortex. In that report, they summarize that one supplier that decided to pass through ancillary costs to commercial and industrial customers is basing the charge on each customer's actual usage for January 2014. The charge is anticipated to be 1% to 3% of each customer's total annual spend on electric supply. Depending on whether customers are billed by their utility or by this specific supplier, customers will see the one-time-only line item on their bill by June 2014. For a medium-size business that is locked into a fixed price of $0.07/kilowatt hour (kWh), with annual usage of 1,000,000 kWh, a 3% pass-through charge would be approximately $2,100.

—Jennifer Samuels, Communication Manager, Energy Research Council

Question: Why not be better prepared for these loads?

Answer: A long-term strategy for customers to better prepare for these loads is to lock in a fixed-price supply contract that mitigates risk of increased costs.

—James Moore, Ph.D., President, Energy Research Council

Question: After a contract expires, why would a company charge a "hold over" rate three times the current market rate?

Answer: Some suppliers automatically switch customers to a variable, market-based index price when their fixed-price contract expires. Market-based index prices in January 2014 were significantly higher than fixed prices. Some electricity suppliers quadrupled the variable price billed to customers. To avoid increased monthly electricity bills, it's prudent for customers to lock in a new supply contract that will begin when their current contract expires, even if that expiration date is one year or more in the future. Don't let you electricity supply contract expire before you've locked in your next solution.

—James Moore, Ph.D., President, Energy Research Council

Question: Fixed-price energy contract supplies should have been hedged, so PJM's increase of the price ceiling should have had no impact on the energy portion. If this is not correct, please explain why.

Answer: Yes. Generally fixed-price energy supply contracts are hedged and would not pass through these types of charges. —Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: I thought that is why we have a storage (bank account) to protect the rates from increasing?

Answer: PJM capacity caps are determined three years in advance, and change each year on June 1st. Anticipating market factors, such as the shutdown of many coal-fired generators in response to Environmental Protection Agency regulations, we already know that PJM capacity rates will definitely go up in 2014 and 2015.

—James Moore, Ph.D., President, Energy Research Council

Question: What are the real cost drivers that drove the +$1000 cost in January?

Answer One: On January 6, 2014, temperatures in key consuming regions of the U.S. dropped to an average of -10 °F, with a wind chill of -33 °F. On January 7, PJM recorded its highest winter peak ever—141,396 megawatts. Eight of the 10 highest winter demand levels for electricity ever recorded by PJM occurred in January 2014. Cold weather burdened all types of power generation, including gas, coal, and nuclear power plants. During all of 2013, the average cost for PJM to ensure reliable power delivery was $53/MWh; in January 2014, the average cost was $150/MWh.

—James Moore, Ph.D., President, Energy Research Council

Answer Two: In some hours, demand response was being deployed and set the price at $1,800/MWh

—Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: How did pricing with REP on index during polar vortex compare with pricing from the utility?

Answer: Customers paying market-based index pricing, and customers paying variable utility rates, all experienced increased costs. The month-to-month electricity supply cost increase in January 2014 was extraordinarily high.

—James Moore, Ph.D., President, Energy Research Council

Question: Speaking of weather historically affecting energy prices—how do you anticipate El Nino may impact rates?

Answer: Experts will release El Nino forecasts later this summer. To date, analysts have suggested an approximately 70% chance of El Nino developing and brining record-breaking high temperatures to the U.S. However, a warmer-than-normal summer is already in the forecast. Similar to during the polar vortex weather events, customers paying a locked-in fixed price are likely to fare better than customers paying a variable, market-based index price. It's impossible to accurately define how extreme weather and natural disasters will impact energy prices, but it's prudent to take steps to mitigate risk exposure.

Question: Can you provide information about the upcoming storage report and if the market forecast is showing a drop in the rates over the summer?

Answer One: Historically, month-to-month electricity supply rates are higher during afternoon hours in the summer, when customers consume the most amount of energy to operate HVAC cooling units. The implementation of demand response programs and emergency demand response events helps to ease demand on the grid during peak demand timeframes; however, prices historically tend to increase.

—James Moore, Ph.D., President, Energy Research Council

Question: Why have basis costs for Transco Zone 6 NY increased so significantly?
Answer: It's a supply-and-demand issue. New England has experienced significantly increased energy costs during the past two years because of pipeline transportation restraints unique to that region.

—James Moore, Ph.D., President, Energy Research Council

Question: Do you expect rates to decrease over the next six-to-nine months, assuming no extreme hot spells?
Answer: Electricity prices are typically higher in the summer months, as demand peaks. Market analysts are keeping an eye on the U.S. natural gas storage deficit, which must be replenished with record-breaking storage injections by the end of October 2014 to meet next winter's heating demand. Prices are highly unlikely to go down in 2014 or 2015.

—James Moore, Ph.D., President, Energy Research Council

Question: If we have an overheated summer using up the storage, and possibly another vortex, should we lock into rates for longer than 12 months? Or what is your recommendation?

Answer: The best supply contract term depends on your size, annual usage, and risk tolerance. Contract conditions, such as bandwidth and change-in-law provisions, also influence which term length is ideal for your budget requirements.

—James Moore, Ph.D., President, Energy Research Council

Question: Can you provide examples of other situations when a change- in-law provision would be invoked?

Answer: ConEdison Solutions has only invoked change-in-law provisions when certain states increased their renewable portfolio standards, forcing suppliers to procure additional renewable energy credits.

—Rehan Gilani, Director of Regulatory Affairs, ConEdison *Solutions*

Question: Is ConEdison *Solutions* going to have a line item charge for fixed-price customers in June?

Answer: No. In its commitment to stay true to a fixed price, ConEdison *Solutions* opted to absorb increased ancillary costs, rather than passing through costs to customers.

—James Moore, Ph.D., President, Energy Research Council