

How to Get a Good Price Shopping in Deregulated Electric Markets

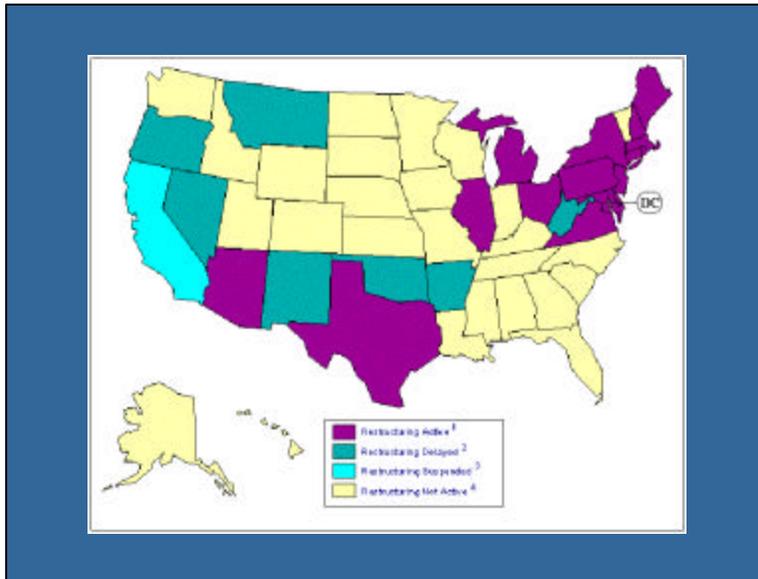
June 2002

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Overview

- National Picture
- GSA Experiences
- Key Ingredients for Good Pricing
- Challenges Moving Forward



GSA Experiences

- GSA has shopped for retail power in the following areas: CT, MA, RI, NH, ME, NY, NJ, PA, DE, MD, DC, OH, IL, TX, CA
- GSA has 10 active power contracts in 7 states and DC
- 8 different contractors
- 700 MW peak load under contract

GSA Experiences

LOCATION	CONTRACTOR	TERM (MONTHS)	TOTAL	TOTAL	AVG. \$/KWH
			ANNUAL KWH	ANNUAL VALUE	
DC/MD	Pepco Energy Svcs	29	1,978,000,000	\$82,500,000	\$0.0417
New York City	AES New Energy	36	401,768,000	\$43,391,000	\$0.1080
Upstate NY	Select Energy	36	50,000,000	\$3,000,000	\$0.0602
CA	Strategic Energy	15	102,000,000	\$8,906,000	\$0.0873
Baltimore	Pepco Energy Svcs	32	222,500,000	\$8,822,500	\$0.0397
Texas	TXCommercialEnergy	36	142,700,000	\$6,992,400	\$0.0490
MA	TransCanada	24	222,400,000	\$9,409,700	\$0.0423
IL	Exelon	44	242,714,000	\$9,709,000	\$0.0400
PA	GreenMtn/Strategic	8 to 36	34,000,000	\$1,721,000	\$0.0506
			3,396,082,000	\$174,451,600	\$0.0514

Pricing Ingredients - Location

- LOCATION - LOCATION - LOCATION
- The location of your facility dictates the range of prices available to you
- Some markets are expensive (CA & NY)
- Transmission congestion
- State regulation and market rules influence price and create/inhibit viable markets

Pricing Ingredients - Timing

- When one is in the market is often the most important factor dictating what price you obtain assuming a fixed price contract
- GSA's buys to date have all been heavily dependent on market timing
- Baltimore: 2/14 - \$0.0397/kWh
- 4/20 - \$0.0432/kWh

Pricing Ingredients - Term

- Cannot make a conclusive determination on contract term and pricing
- Generally every year over a 1 year term would add about \$0.001/kWh in contract price
- However the term premium has gone the other way and is very dependent on current market conditions

Pricing Ingredients - Process

- Up to date, complete, and understandable usage information leads to better prices (lowers risk premium)
- Requiring bidders to hold bid prices for short time periods helps pricing (6-24 hrs.)
- Generate supplier interest

Pricing Ingredients - Flexible Demand

- Planned, flexible use of power lowers contract prices
- Non-emergency load shedding/shaping uncommon for GSA clients
- There is a lot of potential with distributed generation, load shedding, etc., but both users and suppliers/grid need development in this area

Pricing Ingredients - Price Risk

- One way to achieve lower long term prices is for the buyer to assume more price risk
- GSA has been reluctant to do that as markets are immature and we do not operate our buildings to be responsive to market pricing signals and budgets are fixed
- We will probably experiment with more non-firm pricing products next year

Challenges Moving Forward

- More markets are going to be exposed to market based pricing so risk management will need to play a bigger role in GSA's procurement strategy (has not to date)
- We need to minimize the importance of market timing through procurement strategy
- This will entail a shift from firm fixed to hybrid pricing approaches

Challenges Moving Forward

- GSA needs to always be “in the market” or ready to go to market to execute a strategy or “pull the trigger” when market conditions dictate
- As markets mature I envision selecting contractors to execute procurement/risk mgt. strategies on a \$/kWh basis to minimize market pricing/timing volatility

Challenges Moving Forward

- Financial mgt. tools & concepts will be used to manage large energy loads (bond ladders, hedges, puts and calls, etc.)
- These financial concepts will be required if one wants to stay within certain budgetary tolerances (e.g. + or - 15%)
- Ought to find a way to capitalize on Govt's. credit rating to lower risk premiums

GSA

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