Central Hudson Gas & Electric Corporation
Electric Supply Procurement Practices

Department of Public Service
Technical Workshop
Case 06-M-1017
Albany, NY
October 20, 2006

Topics

1. CHG&E electric supply portfolio practices
2. CHG&E cost elements of electric supply prices
3. Specific elements of CHG&E's portfolio

Some History

- Divestiture of Danskammer and interest in Roseton generating facility in 2001 to Dynegy
- Transition Power Agreement
  - Three year agreement with option to extend for add'l year (exercised)
  - Decreasing blocks of energy, capacity, and ancillary services
  - Designed to ease customer transition into competitive wholesale power market
- Developed unbundled rates and Energy Cost Adjustment Mechanism (ECAM)

More History

- Divestiture of interest in Nine Mile Point 2 generating facility in 2001 to Constellation
- Purchased Power Agreement
  - Ten year agreement through 2011 with revenue sharing provisions thereafter
  - 93 MW delivered to Zone G
  - Cost or benefits of this agreement are shared with all customers through PPA factor of ECAM

Electric Supply Considerations

- Assess historical requirements
  - Average on-peak load in Summer 2005 – 920 MW
  - Peak day load – 1,204 MW HE 1400 on 7/27
  - Account for weather conditions and EDRP events
- Assess sales and load growth forecasts
  - Regional load growth forecast at 1.1%
- Consider long range weather forecasts and other variables
  - Hurricane season forecast, gas prices, and gas storage inventories
- Assess retail access migration and HPP
  - Retail access – ~200 MW
  - SC #3 & #13 in Hourly Pricing Provision (Zone G DA LBMP)

Electric Supply Hedging Philosophy

- Over time, expose customers to wholesale market price signals while utilizing short term hedging to limit customer's short term bill volatility due to price (not consumption) to about 15% of their "normal" bill
- This protects customers from price increases due to NYISO load forecast errors or other short term contingencies that affect spot prices in zone G
- A "normal" customer bill is the bill a customer would receive that reflects current supply costs but not costs associated with short term price spikes due to weather, generator outages, transmission outages, or other contingencies
- Short term hedging does not protect customers from seasonal and long term price increases/decreases

Electric Energy Supply

- CHG&E utilizes a mix of physical deliveries and financial swaps to reduce customers' bill volatility
- Focus mainly on one year out, but will consider three years
- Utilize brokers to pair us with suppliers
- Sometimes issue RFPs for energy
- Our goal is to hedge about 65% of our normal on-peak summer load
- Off peak and shoulder months are hedged less as prices are usually less volatile during these periods

Electric Capacity (UCAP)

- Roughly 95% of our requirement is purchased using bilateral physical contracts.
- Utilize brokers to match us with counterparties
- Sometimes issue RFPs for capacity
- Also make direct purchases from suppliers using internal contacts
- Use the NYISO auction for balancing the other 5% of our requirement (Our exact requirement is determined by the demand curve)
- We will purchase out 3 years for a portion of our expected requirement

Supply and Supply Related Cost Elements

- Energy Cost Adjustment Mechanism consists of 4 monthly factors:
  - Market Price Charge (MPC)
  - Market Price Adjustment (MPA)
  - Miscellaneous Charge (MISC)
  - Purchased Power Adjustment (PPA)
- MPC and MPA apply only to customers taking supply service (excluding HPP customers); MISC and PPA apply to all customers
- Factors established in statement each month

Supply and Supply Related Cost Elements

- MPC – costs of all commodity related purchases including energy, capacity, transmission, risk management fees, and charges assessed by the NYISO made on behalf of supply customers (excluding energy under HPP)
  - Reflects energy and capacity purchased through PPA with Constellation at market (DA) price
  - Reflects retained generation and IPPs at market (RT) price
  - Includes amounts paid to customers under NYISO EDRP
  - Includes working capital carrying charge and uncollectible allowance components
  - Factors are SC specific (SC 1, 2, 9; SC 6 TOU; SC 5 and 8)
- MPA is the reconciliation mechanism for the MPC
  - Factors are SC specific

Supply and Supply Related Cost Elements

- MISC – cost or benefit of all non-avoidable, variable energy related revenues or costs from retained generation and IPP purchases
  - Includes NTAC and ancillary service charges (Schedule 1, 2, 3, 5, 6), including reimbursements to ESCOs (Effective 7/1/2007, these will move into MPC and HPP UCAP factor)
  - Includes working capital carrying charge and uncollectible allowance components
  - Uniform factor applicable to all energy deliveries, subject to reconciliation
- PPA - cost or benefit of the Purchased Power Agreement with Constellation
  - Cost or benefit measured against market (DA) price
  - Includes uncollectible allowance
  - Uniform factor applicable to all energy deliveries, subject to reconciliation

Current Supply Positions

Energy

- 92 MW ATC unit contingent off NMP2 with Constellation, expires 2011
- 100 MW ATC unit contingent off IP2 and IP3 with Entergy, expires 12/2007
- 50MW ATC swap with Constellation, expires 12/2006
- Own generation, roughly 30 MW –70 MW
- Layer on additional energy contracts of between 100 and 250 MW, depending upon the month

Capacity

- 92 MW from Constellation
- 30MW – 70MW of own generation (hydros, CTs, IPPs)
- Other spot bilateral purchases
  - 100% of Winter '06-'07
  - ~60% of Summer '07
  - ~35% of Winter '07-'08
  - No purchases for Summer '08 to date

Other

- CHG&E seeks to manage its supply obligation in a balanced way that provides some level of hedging for bill stability and volatility mitigation in order to maintain customer satisfaction
- No specific volatility metrics used to monitor the supply portfolio
- Supply purchase plans are regularly monitored, reviewed, and approved by an internal Risk Committee
- Currently, specific information on the Company's supply contracts is not made public
- Releasing specific pricing, terms, and conditions of supply contracts may limit counterparty interest in future supply solicitations