

More Power to You

PoCo Energy Group Article

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Current Market Conditions

Natural gas, the fuel that drives a considerable portion of electricity generation in Texas, has been dropping steadily for the last 3 months. The high reached in that market during late December 2005 was \$15 per MMBTU. The *current month* is trading right at \$6.50. That is a decrease of almost 60%. The favorable conditions of unseasonably warm winter corresponding with healthy natural gas storage reports has led to the largest decline in the cost of this fuel since the beginning of deregulation. However, this drop is only for the prompt month. If you look further out on the forward months NYMEX Index for natural gas, the costs are still higher for 1-3 year contracts than they were this same time last year.



Understandably, customers all across the state have been clamoring for fixed rate contracts since the price of natural gas has come off so considerably. Retail Electric Providers (REPs) have been slammed with requests for updated pricing and renewed agreements for the last two months. However, for those who did not need to lock in rates *prior to the last two weeks*, fixing a rate may be deemed to have been slightly premature. The cost of energy will very likely continue its downward movement until the end of April 2006. Obviously there is no guarantee that this will be the case, but market watchers often suggest that customers not buy while the price is dropping but do so once it begins to turn upwards. The reason for this approach is to get as close to the bottom of the trough as possible.

Long Term Rationale

If you look at pricing from any REP right now, the one year price is a little lower than the two/three year rate quotes. So, the obvious question comes to mind. Why sign a three year contract if it is more costly per kWh than a one year agreement?

The answer is that the cost of electricity will likely be elevated this time next year above what it is right now, and it could be MUCH higher. So for the sake of budget stability and the opportunity to lock in 2006 prices until 2009, we have chosen to move forward for an extended opportunity instead of risking the short-term alternative.

Some have asked why we have chosen to not go longer than three years. The analysis behind this decision is that there are some changes coming in early 2010 that will have an unknown impact on the cost of moving energy across the state. Congestion costs will be impacted by Texas moving from a zonal to a nodal structure.

Reasons for contracting now

In our last article we suggested that conditions were not ripe for signing a contract for an extended term due to still high prices. But we also stated that Price To Beat (PTB) customers could still benefit from signing an agreement simply because the market was beginning to fall and PTB was increasing at the time. However, CSSI and PoCo have always believed that March/April 2006 would yield the premium opportunity for buying electricity contracts.



Since December 2005, the natural gas commodity has steadily declined from its historical high that was reached following the two hurricanes last fall. And, in the last month and a half the cost of gas has decreased from \$9 to \$6.50 per MMBTU. This dramatic decline is certainly validating the direction CSSI and PoCo agreed to take since early in the aggregation process. Now that the cost of energy is in reasonable range again, we are at decision time.

Benefits to Your Ministry

Everyone shopping this electricity market is focused on one thing...the bottom line. How much can I expect to pay for energy? That is the question on the mind of every person facing the decision to lock in at a fixed rate for a fixed period of time.

Several CSSI members are coming off of a rate that fell in the range of \$.062 - \$.065 per kWh. Now we are looking at rates of \$.087 - \$.09 per kWh, and that is for energy only and does not include transmission costs to get energy from the generation plant to your home or facility. Obviously the increase is pushing the 30% level, depending on your previous rate.



Facing a 30% budget increase for electric power is a huge factor in planning financial matters for the coming year. However, that is the nature of where we are at in the market, and there are no signs of continued dramatic decreases on the near horizon. The downward movement in natural gas prices is very likely near the low that it will reach prior to heading back up when summer is upon us.

The benefit to your ministry is this: there is power in numbers, and we will have that power going forward. If the cost of energy does take another dive in the future we, together, can buy power going forward. So instead of three years, we will add another one to two years onto the contract in order to benefit from the market dip. And, if it appears that the cost of energy will climb even higher, we, together, can extend our agreements to hedge off the looming increase. Either way, as a united group, we will have the option of carrying our fixed margin into the future and that is the advantage we have before us.

Eleventh Hour REP Switch

By now you have likely heard that we were well down the road with Reliant Energy as the REP of choice for our aggregated CSSI load. In the middle of March, just prior to the CSSI annual conference, Reliant regrettably declined the ability to continue on in the process with the CSSI membership and PoCo Energy Group. Due to some unforeseen alterations in the Reliant structuring side of the business, they were no longer able to honor previous commitments to a fixed retailer margin on an ongoing basis. However, PoCo was able to quickly shift to a new REP the day after the news from Reliant. The new REP was selected after sending the business opportunity to two other REPs: those were First Choice Power and SUEZ Energy. Both are reputable and stable providers in the Texas marketplace. First Choice responded very promptly in the affirmative while SUEZ declined the following day after the request was sent.

First Choice Power was acquired last year by PNM Resources, an energy holding company based in Albuquerque, NM. The acquisition by PNM has brought First Choice a new level of expertise and improved services. But most of all, First Choice is now a very competitive retailer in Texas. And, that is good news for our load of business. First Choice has agreed to all of our criteria for moving forward in this aggregated load of business. They are not new to large church loads. First Choice has worked with several Methodist Conference groups in Texas and is very familiar with the kinds of issues related to church loads.



Therefore, we have chosen to move ahead quickly with First Choice. However, this was not a hurried and careless choice. PoCo has worked with First Choice for several years and we have watched them improve with age, especially since they were obtained by PNM. And, the fact that First Choice so quickly agreed to hold their retail margin throughout the course of the term for all churches/ministries coming into the aggregation as well as not having a monthly meter fee put them in the lead position from the outset.

Conclusion

Summer will very likely bring with it both the normal Texas heat as well as an up tick in the prices for energy. For all members whose contracts are expiring within the next 4-6 months should strongly consider locking the rate for renewal previous to the middle of May in order to insure not being caught in an unreasonable market high. Thankfully, both CSSI and PoCo are laboring on your behalf to lay the groundwork for us to all forge ahead together for the advantage of all involved.