ConEdison *Solutions*®
An Energy Services Company

Energy Update

Published for ConEdison *Solutions* Customers
Vol. 2, Issue 3 **August 2005**

Market Update

There has been plenty of energy news since the May issue of Energy Update - almost all of it bad for buyers. Even prior to Hurricane Katrina, threats of gulf storms, forecasts of warm weather in the summer, or almost any geopolitical news story that could be interpreted as potentially reducing energy supplies seemed to raise forward energy prices by 5% on any given day. Since much of the news and political occurrences which impacted prices this summer were fairly routine, there must be something else that caused the upward price movement this year. Even when energy markets dipped, the dips were short-lived and there seemed to be an invisible barrier that kept energy prices from falling significantly. We believe that invisible barrier to be demand. As prices go higher, energy usage should go down. However, during this summer, most of the country easily broke previous records for energy use. The same holds true for gasoline, natural gas, and oil -- prices keep going up, and there isn't a noticeable drop in demand.

We don't think this implies that the traditional economic relationship between price and demand is now proven wrong. What occurs in the energy industry is that most consumers are not directly exposed to the spot price of energy. Fixed price contracts, long term standard offer contracts (like New Jersey Basic Generation Service), and most importantly, the utility rate adjustment process all delay the pain of increased prices which, in turn, affects consumers usage behavior. Unfortunately, customers coming off fixed price contracts will experience considerably higher prices in the new contracts. Further, fuel riders and delayed fuel cost adjustments throughout the country are starting to kick in - and they are significant.

It seems likely that demand will go down as higher bills come in. Will it be enough to stall the steady increase in energy prices is the question. If we do not see a significant reduction in demand, that seems to indicate we are willing to pay more - and, in all likelihood, we probably will.

Another trend that became apparent this summer is that we can no longer limit our concerns to gas and power prices in the northeast. Reduced river flow on the Ohio River limited coal shipments to generators this summer and helped push gas prices higher. And increased shipments of crude oil to Asia continue to influence the price of all forms of oil and, through displacement, the price of gas and power locally. Although most of us are not buyers of coal or crude oil, nor do we track river flows, under a tight supply and demand scenario every input into the equation becomes important.

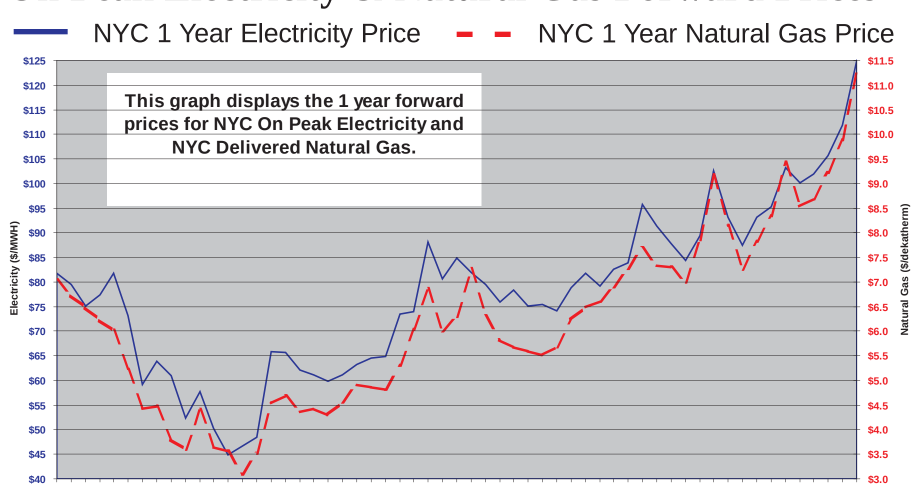
Given that the availability of new sources of supply is not going to change for several years, the reduction in demand due to higher prices will become the principal controlling factor. Although we expect to see a demand reduction by the end of the year, we do not anticipate that it will be enough to see a major drop in prices, but hopefully it will be enough to reverse the 30% run up in price over the past couple of months.

The only sure bet to save money over the foreseeable future is to use less energy. Other than that, consider flexible contracts that allow you to fix portions of your requirements as the inevitable and frequent market corrections occur. It's generally not a good idea to try and time markets, but a relatively short-term dollar cost averaging approach may at least minimize the extreme volatility we expect over the coming months.

Hurricane Katrina Update

We know that everyone shares our concern for the victims of Hurricane Katrina. We will not know the full implications of this devastating event for weeks to come, but it has certainly raised public awareness of rapidly rising energy prices. The threat of reduced oil and gas supply and production as a result of Katrina caused northeast electricity markets to spike upwards of 15% earlier this week. Hopefully, the increased public concern over energy prices will soften energy demand enough to offset the loss in production capacity - some of which may take months to restore.

On Peak Electricity & Natural Gas Forward Prices



Source: ConEdison *Solutions'* Forward Curves, August 2005

ConEdison Solutions
An Energy Services Company

Energy Update

Published for ConEdison *Solutions* Customers
Vol. 2, Issue 3 August 2005

(Left to right) Robert Callendar, NYSERDA; Jennifer Kearney, NYPH; Steven Corwin, NYPH; Robert Schwabacher, NYPH; JoAnn Ryan, CES; Robert Sauchelli, EPA

Energy Conservation Strategy for NY Presbyterian Hospital

NewYork-Presbyterian Hospital, the nation's largest, not-for-profit, non-sectarian hospital, has teamed with ConEdison *Solutions* and the New York State Energy Research and Development Authority (NYSERDA) to implement a wide-ranging energy conservation strategy that will deliver more than $745,000 in annual energy savings at the ten-million-square-foot institution.

Hospital officials project that savings generated by the energy improvement upgrades will deliver a full payback on the initial investment within 2.5 years. Overall, the upgrades are expected to generate energy savings of approximately 5.8 million kilowatt-hours per year.

In recognition of the energy conservation initiative, the U.S. Environmental Protection Agency and the U.S. Department of Energy named NewYork-Presbyterian Hospital its ENERGY STAR® Partner of the Year for its outstanding contribution to reducing greenhouse gas emissions through leadership in energy management.

NewYork-Presbyterian Hospital began working with ConEdison *Solutions* in 1999 to build upon its existing energy management efforts with a view toward maximizing the level of resources the institution could devote to patient care and research. Call us at (914) 286-7077 to see how we can help your organization create a strategy for using energy wisely.

FERC Delays Installed Capacity Reforms in New England

The Federal Energy Regulatory Commission (FERC) issued an order on August 10, 2005 that effectively delays any changes to the installed capacity markets in New England until next fall. In previous actions, FERC had approved the implementation of a new capacity market to become effective January 1, 2006. The new capacity construct, called Locational Installed Capacity ("LICAP"), shares many of the elements of the current New York capacity market and would establish separate locational capacity markets for the load pockets of Southwest Connecticut, Connecticut as a whole and the greater Boston area and would have also included a demand curve element to value capacity in excess of minimum requirements. In response to requests from several parties including representatives of various states within New England, FERC has scheduled oral arguments to consider the merits of LICAP and has delayed until the implementation of LICAP at least October 2006.

For Questions or Comments
Please contact:
Kevin Martinsen
Phone: (914) 286-7016
martinsenk@conedsolutions.com

Corporate Headquarters
701 Westchester Avenue
Suite 300 East
White Plains, NY 10604

Tel: (888) 210-8899
Fax: (914) 448-0057

Arlington Office
4530 North Fairfax Drive
Suite 820
Arlington, VA 22203

Tel: (703) 875-9458
Fax: (703) 875-8695

Burlington Office
2 Burlington Woods
Burlington, MA 01803

Sam Morgan
morgansa@conedsolutions.com
Tel: (781) 203-2707
Fax: (781) 229-9613

Cherry Hill Office
Cherry Tree Corporate Center
535 State Highway 38
Suite 140
Cherry Hill, NJ 08002

Tel: (856) 665-0955
Fax: (856) 665-3692

Baltimore Contact
Kurt Backert
backertk@conedsolutions.com
Tel: (410) 458-9080
Fax: (410) 665-9569

Visit Our Website

www.conedsolutions.com