

PowerOptions®



Energy Price Hedging Using Non-Fossil Fuel Generation

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General Manager

PowerOptions



HEFA and PowerOptions, Inc.

- Mass. HEFA : Massachusetts Health and Educational Facilities Authority – public instrumentality formed in 1968 for the purpose of issuing tax-exempt bonds to finance facilities for lowest cost of capital
- PowerOptions : Energy purchasing consortium formed in 1996 by HEFA for Massachusetts nonprofits, cities and towns and state governmental entities
- One of the largest regional power purchasing groups in New England with 500+ active members
- Since 1998, participating members have saved over \$145 million in electricity and gas supply costs

PowerOptions Consortium

- Electricity and natural gas supply provided through pre-negotiated contracts and pricing.
- Members receive individual quotations; there is no price subsidization among members
- Procurement through competitive RFP
 - 3.5 million decatherms of gas supply currently under contract to members
 - 300 MW of electricity load currently under contract to members
- Staff provides information and advice to members on procuring energy supply and evaluating price quotations

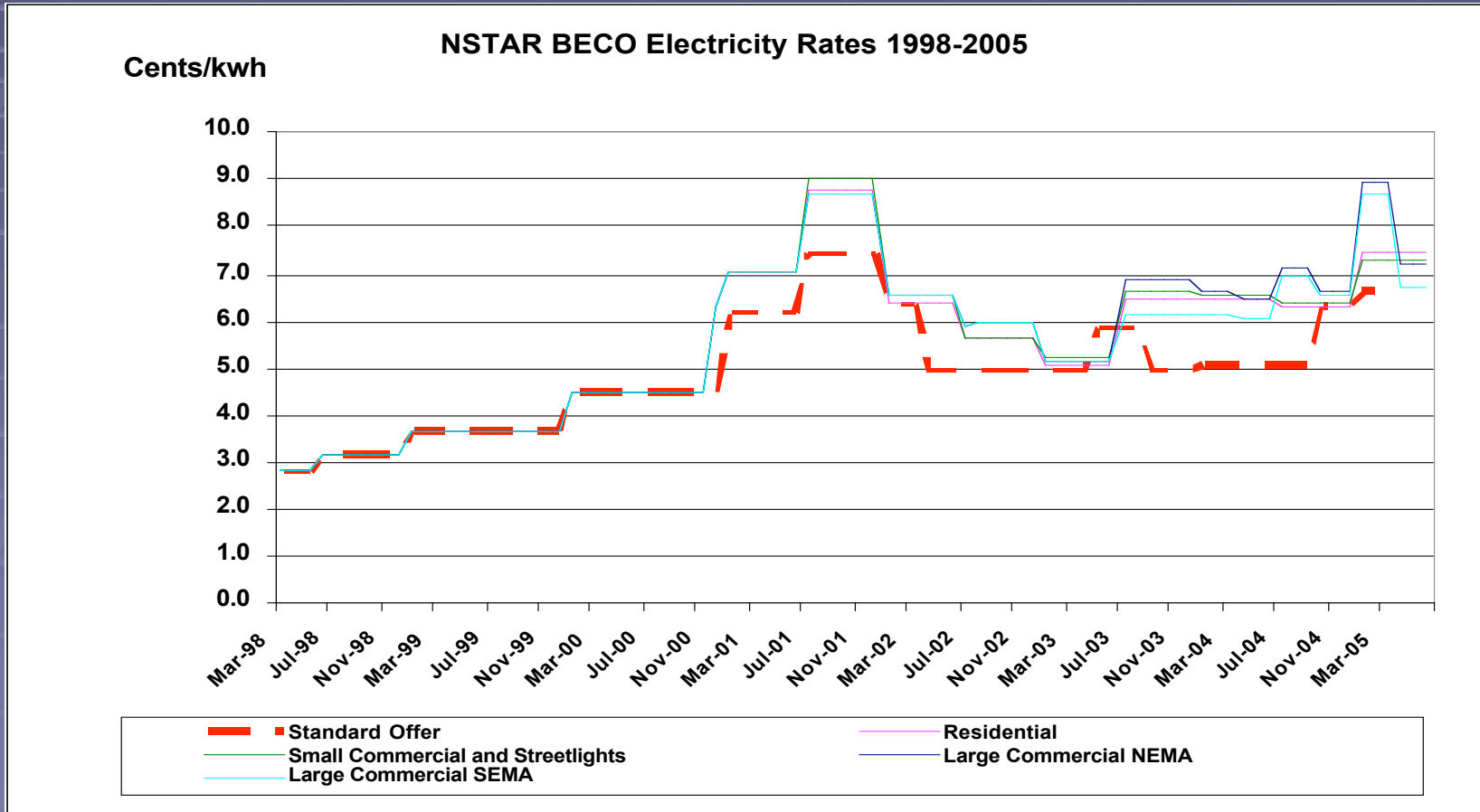
Diversity of Nonprofit Members

- **Healthcare**
 - Hospitals and Medical Centers
 - Neighborhood Health Care Centers
 - Elderly Housing: Nursing Homes, Independent and Assisted Living Centers
- **Education**
 - Elementary: K-12 Public and Private Schools
 - Higher Ed: State, Community and Private Colleges/Universities
- **Local and State Government**
 - Cities and Towns
 - Public School Systems
 - Public Housing and Housing Authorities
 - Water Treatment Plants and Districts
- **Cultural and Community Based**
 - Museums
 - Community and Service Organizations
 - Religious Entities, Churches and Temples
 - Children's Homes
 - Local YMCA / YWCA Centers

Energy 101

- Massachusetts lawmakers deregulated electricity in 1998 and natural gas in 1996
- Utilities were required to sell their power generation plants and become only the delivery company (“wires” and “pipes”)
- Consumers now given a choice for supply
 1. Competitive supplier
 2. LDC (local distribution company) procured supply
 - Electric
 - March 98 to Feb. ‘05: standard offer or default service
 - Now: basic service
 - Gas: default service
 3. Municipal Power*

NStar BECO 1998-2005 Default & Standard Offer Electricity Rates



New England's Current Marketplace

- Few, but increasing, electric suppliers active at retail
- Market prices have increased steadily since mid-January to above historic levels (oil demand/prices, Iraq, gas storage, east coast weather, world economies)
- Recent influences that have affected New England prices
 - Increased demand from new natural gas powered electricity plants
 - Cold winter temps
 - Storage status
 - Canada sources/pipeline
 - LNG

Using Non-Fuel Dependent Generation to Hedge Future Pricing

- Some characteristics of non fossil fuel dependent generation are better for long term rate stability, but
- Power is Intermittent or “unreliable” and needs to be supported by other types of generation
- Combination sets final price characteristics

Objective: To add a product to PowerOptions' offerings that :

- Provides Member with a long term hedge against fossil fuel price volatility
- Captures savings over time from using non-fuel dependent generation
- Provides one possible element of multiple period supply portfolio
- Extend the period of favorable energy purchases available through PowerOptions

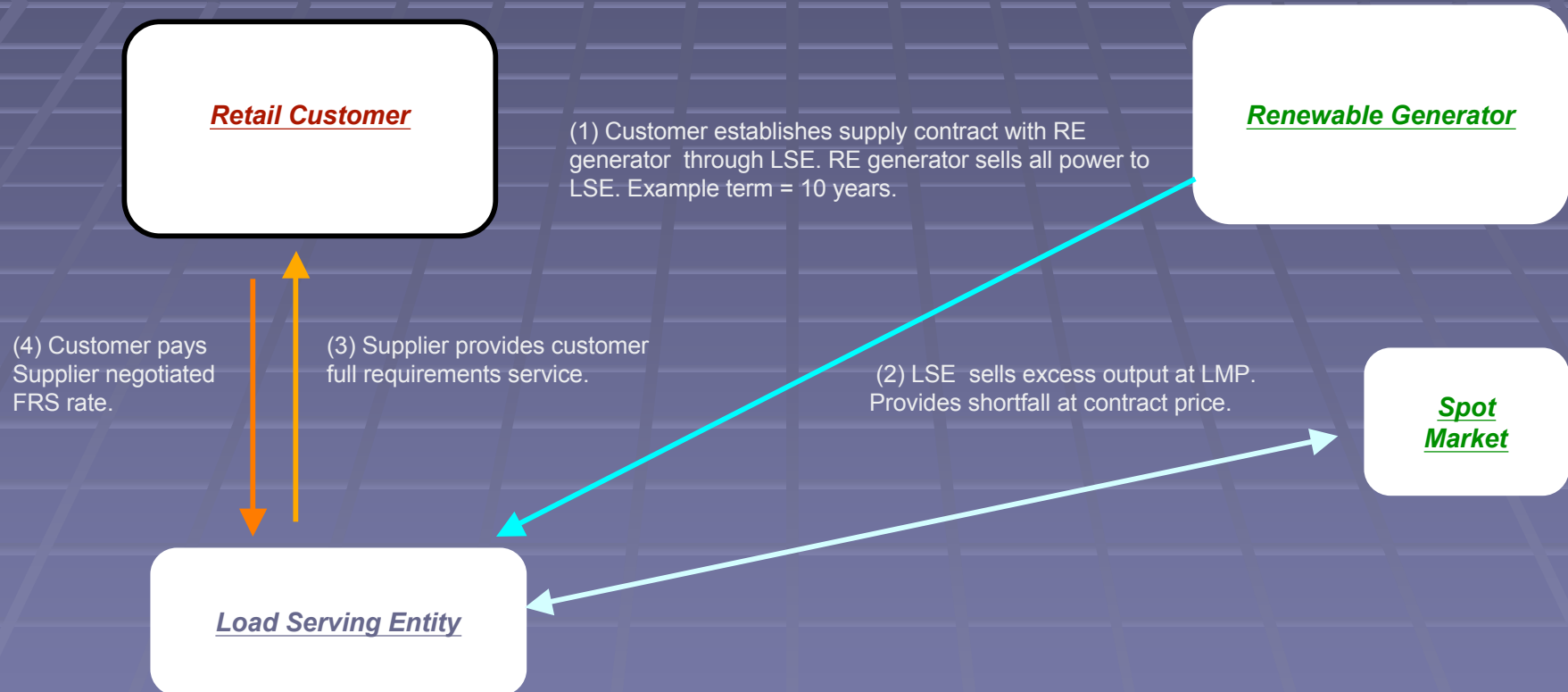
Benefits of Such a Product

- Responds to members' expressed concerns for long term price stability in new retail market
- Allows members to hedge part of their future energy costs for one element of market uncertainty-- fossil fuel prices
- May provide lower costs in future

Status

- Working closely with state agencies (MRET and DOER) and other consumer groups
- Circulated conceptual RFP
- RFP responses are under review and discussions underway with green Generators
- Developing options for integrating Long Term Supply with member's shorter contracted supply.
- Target date for offering – July 2005

“Renewable-as-Hedge” Possible Transaction



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