Lessons Learned from History - IP3

Since the first of 2012, power prices available have moved sideways to lower, providing procurement values that are the proverbial "no brainers". To many loads (end-users), that's the end of the conversation. The advantages of timing and/or different structures are lost in the "hey, prices are below $.05/kWh; grab them" mindset. It's certainly understandable and for many, a good answer. Let's begin our discussion here.

For large, creditworthy loads who are constantly striving to optimize procurement and have the wherewithal to identify and accept definable risk, transparency is king. We, along with many of our peers, have wanted to compare how procurement performed versus alternatives of structure and timing. This "backcast" would necessarily need to be as exact as possible. 15 minute interval IDR usage is exact and accessible. 15 minute real time pricing (LMP) is exact and accessible. Forward curve values (power, natural gas, heat rates) are available for any trading day and are close indicatives of value (as the day's range is near enough for the analysis). The search is for what best marries lowest cost to acceptable risk. Even if a load isn't inclined to lift the historically lowest cost procurement, real time, and instead lift load following fixed price to transfer the risk (an insurance policy if you will), knowing what the cost of the insurance premium is important intelligence.

If a program could be developed that could provide the look described above and have the ability to look at alternatives in real time, it should help decisions. Beginning with ERCOT, IPP has developed such a tool "IP3":

http://www.infinitypowerpartners.com/IP3

In layman's terms, we can upload your usage, procurement terms, and real time pricing, plug in forward curve values and recreate the market as of execution date. We can compare that to the alternatives available on the same date and other dates of execution. Comparing results and what the technical look of the pieces that comprise energy price will provide information inaccessible heretofore and consequently lead to better procurement management.

To be clear, this isn't a silver bullet. You still have to make decisions going forward. If you're inclined to a heat rate structure, you still have to lock one and float the other, eventually determining best time to lock the open exposure. By and large the prevalent

structure is locking heat rate and floating gas. However, as we currently believe, you might structure the reverse and lock gas and float heat rate. If you want a block structured (layered or static), what should be locked and what should be floated? The focus is looking at alternatives side by side with the technical picture of pricing available and refine what's done when. It isn't intended to criticize what's gone before, but rather to improve/confirm/tweak what comes next.

We believe this is a unique tool. If you would like a test drive, please contact us. That's the reason we developed it.