

Why is Albany trying to raise your electric rates – again?

Power costs are a big competitive problem for New York. Deregulation and tax reform have helped. But now the state is pushing policies that will make your costs higher.

This summer's massive blackout reminded New Yorkers that electricity doesn't arrive by happenstance. Everyone is now aware that we need adequate generation and delivery capacity.

Aside from the *availability* of power, there's another critically important issue: the *cost*.

Official state policy is to cut the cost of electricity. But these ideas could add hundreds of millions of dollars to what we pay.

Electric rates in New York are among the highest in the country. Overall average rates in the Empire State were 59 percent higher than the national average as of 2001, according to federal government data. Commercial and residential rates were especially far out of line.

Official New York State policy, as reflected in the state Energy Plan adopted just last year, is that Albany will work to reduce energy

prices, to narrow the disparity between costs here and those in competing states. Governor Pataki, virtually every member of the Legislature, Attorney General Spitzer and others have all called for lower electric prices to help keep and create jobs in New York.

Yet both the executive and legislative branches of state government – the Public Service Commission and the state Assembly – are pursuing policies that could push the price of electricity sharply higher. And

INSIDE

Some new or proposed state policies that could push electric rates up:

- ◆ An "acid rain" initiative that's projected to cost us \$370 million a year – without helping the Adirondacks or the Catskills.
- ◆ A hidden tax on utility bills that funds energy projects of unproven benefit.
- ◆ A proceeding that could force consumers to pay for "renewable" power that's more expensive.
- ◆ A plan to reduce carbon dioxide emissions that will add to the cost of oil- and coal-fired generation – but won't make a dent in "global warming."
- ◆ While the state drags its feet on one step that could reduce electric bills – siting more plants to increase price competition and improve reliability.

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Rather than striving to increase the cost of electricity, state leaders should fulfill the promise of the state Energy Plan by reducing government-mandated surcharges on energy bills. Such efforts, along with a determined effort to site new generation and transmission facilities, will pay off in more competitive energy costs for both residents and businesses – and more good jobs for New Yorkers.

Energy costs and jobs

“Energy prices tend to be important factors in business location and expansion decisions, particularly for energy-intensive businesses. . . Corporations routinely favor locations that have the greatest profit potential. Less profitable facilities will, at best, not be expanded. At worst, they will be closed, with a resultant loss of jobs.”

That's not an argument from the business community. It's official state policy, as stated in the New York State Energy Plan adopted in June 2002. Observing that state leaders had cut taxes and made other improvements to the business climate, the Energy Plan continued: “The cost of energy, however, remains an obstacle to overcome in New York's efforts to retain, expand, and attract business.” In fact, according to the Energy Plan, for every \$100 million reduction in energy costs, New York can expect to gain some 1,600 jobs and an increase in personal income of more than \$100 million.

Unfortunately, recently enacted state policies, other proposals, and inaction on needed siting reforms will drive electrical costs *up* by billions of dollars. Assuming the State Energy Plan's findings are correct, that could translate into many thousands of lost jobs for New Yorkers.

We're already moving in the wrong direction

State officials justify various new energy-related policies by explaining that each will impose only a modest additional cost. The problem with that thinking, to paraphrase an observation often made about government spending, is this: A minor increase here and a modest surcharge there, and pretty soon you're talking about billions of dollars in higher costs for New Yorkers.

Among the policies already enacted are Department of Environmental Conservation regulations, formally adopted in May 2003, which the department itself predicts will raise prices and kill jobs.

DEC's “Acid Rain Reduction Trading Program” requires electric generating plants to reduce emissions of nitrous oxide (NOx) and sulphur dioxide (SO₂). As Governor Pataki did in announcing the original proposal in 1999, the department

said reductions of those pollutants would protect sensitive areas such as the Adirondacks and the Catskills from harmful acid rain.

There's no question that acid rain damages plant species at high elevations and has reduced fish populations in some Adirondack lakes. Yet there's also no question that the new regulations will fail to solve that problem. Most acid-producing pollutants in the air above the Adirondacks and the Catskills come from out-of-state sources. DEC's own analysis of its new regulations attempts no specific assessment of the environmental benefits, and says the ultimate solution is federal action to reduce emissions in Ohio and other states.

While the benefits of DEC's action are at best unclear, the costs of the new rules are well known. The "regulatory impact statement" that agency staff filed with the new rule estimates the new regulations will cost electricity producers and their customers \$370 million a year. Average wholesale costs for power will rise 5.4 percent as a result, with particularly high increases in Buffalo (6 percent), Rochester (9 percent) and Long Island (16 percent), DEC predicted.

Wholesale cost is generally about half of a consumer's final bill. Statewide, then, it's likely that electric consumers will see their utility bills rise by roughly 2.7 percent as a result of DEC's action. Industry experts believe the DEC estimates are conservative, and actual costs will be even higher.

The cost goes beyond dollars. DEC estimated that higher electric costs could force employers to eliminate as many as 5,900 jobs, with proportionally the largest losses in the three regions mentioned above.

The new tax on utility bills

One reason electric bills in New York are so high is that, for decades, both state and local-government leaders have used energy companies as surrogate tax collectors. According to the Energy Association of New York State, state and local taxes (not including federal) account for 15 to 18 percent of each dollar New Yorkers pay for electric and gas service.

In the late 1990s, state leaders acted to reduce one major levy on utility bills, the gross receipts tax, by more than \$400 million a year. Unfortunately, at the same time the Public Service Commission created what amounts to a new tax, called the "system benefits charge." That charge now totals \$165 million a year — wiping out much of the benefit from the reduction in the GRT. Nearly half the charge is imposed on customers of Consolidated Edison Company of New York; customers of Niagara Mohawk Power Corp. pay another one-quarter of the total and other ratepayers make up the rest.

In theory one purpose of the system benefits charge is to help ease the transition from an electric industry consisting primarily of regulated utilities to a competitive marketplace. The main purpose of *that* transition, however, is to reduce New York's sky-high electric rates. It is as though state leaders have adopted a policy of *raising* electric rates in the hope that this will *reduce* them.

The new charge varies from region to region, depending on such factors as historical utility investments in conservation and low-income programs.

The state itself predicts these new policies will raise costs and kill jobs.

The state cut the gross receipts tax on utility bills by \$400 million. But meanwhile it's added a new surcharge that's costing consumers almost half that much.

According to PSC data on monthly bills for each major utility, the SBC represents 1.3 to 2.5 percent of the total electric bill for most ratepayers — rising to well above 3 percent for some industrial customers.

The New York State Energy Research and Development Authority administers the SBC and receives for its administrative costs up to 7 percent of the dollars consumers pay into the fund, a total of \$52 million over the six years of the program.

The SBC has become the vehicle for a wide range of new governmental intrusions into the energy marketplace. NYSERDA employs more than 30 project managers who oversee programs that range from advising consumers on choosing low-energy equipment, to helping business and residential customers purchase such equipment, to creating incentives for purchase of “green” power. Clearly, some such projects reduce energy use. But the amount of the SBC was determined before anyone analyzed what programs might be worth funding. Inevitably that gives a bureaucracy an incentive to figure out how to spend the money coming in, rather than figure out how much actually needs to be spent. The number and variety of consumer-funded energy programs means that millions of consumer dollars are being spent on programs whose value is unproven.

There is a public-relations component as well. The state’s plan for spending SBC funds emphasizes improving public understanding of the benefits of conservation, energy efficiency and “green” power; already, tens of millions of dollars have been spent or committed for such efforts. (The plan also calls for educating the public about the need for siting of additional generation capacity. Interestingly, however, to date *those* efforts have been few or nonexistent.)

NYSERDA has said that improving reliability in the state’s electrical system is a key goal — and the August blackout demonstrated that this would, indeed, be a “system benefit.” One way to improve reliability would be to devote a significant part of the SBC fund to upgrading the transmission and delivery system. The New York Independent System Operator, which oversees the statewide electric grid, estimates that congestion on the electric grid cost New York State customers some \$2.75 billion between 2000 and 2003. Part of the SBC fund could be devoted to system upgrades recommended by the NYISO; it would seem reasonable for the Public Service Commission to ensure that the fund can be used in this way.

More renewable sources = higher costs?

One purpose of the SBC fund is to create a stronger market for “renewable” power sources such as wind and solar power. State officials have spent more than \$33 million of consumers’ utility dollars on renewable-energy projects through the SBC in recent years.

But the Public Service Commission has taken the position that it’s not nearly enough. Pursuing a goal identified by Governor Pataki, the PSC is working on an plan that could force consumers to spend perhaps hundreds of millions of dollars — or even more — on renewable power.

Currently, about 19 percent of electricity generated in New York comes from “renewable” sources, including waste-to-energy facilities. Most of the total is hydropower from New York Power Authority facilities at Niagara Falls and along the St. Lawrence River, and a number of smaller plants elsewhere in the state.

The PSC declared in February 2003 that increasing the share of renewable-source power consumed in the state to 25 percent “would be in the public interest” and began a procedure that is supposed to result in a formal, mandated “renewable portfolio standard” to achieve that new goal.

A consultant’s report to the state suggested that mandating a certain share of renewable power could raise average electric bills in New York by 2 percent because power generated from sources such as sunlight and the wind is more expensive than traditional generation. Such an increase would amount to a total annual cost of some \$320 million. Several utilities, in comments to the PSC, estimated the cost could be over \$400 million a year.

At the moment the most promising new potential source of renewable power is wind, and New York does have considerable potential for siting wind power. The State Energy Plan says that by 2022 New York could hope to develop about 17,000 megawatts of wind-powered generating capacity. It also says the current cost of developing such power is between \$900,000 and \$1.2 million a megawatt. So the total investment could cost \$15 billion or more.

Yet according to the Energy Plan, only about 3,200, less than one-fifth, of those 17,000 megawatts would be usable during periods of peak demand. The Public Policy Institute has calculated that New York needs to add 9,200 megawatts of peak capacity by 2007 just to preserve reliability and competition in the system and to keep up with growth in demand. If only one-third of that can come from wind, what else must New York do to meet a 25 percent renewables quota, and what will it cost altogether? To date the PSC has not answered those questions.

The PSC’s proceedings on renewable power have evinced little concern about whether its policy could drive jobs away. But the state’s economic-development agency, Empire State Development, is clearly concerned. The likely cost increases from the PSC proposal “will negatively impact the business climate in New York State and will hinder the Department’s ability to further attract and retain jobs,” ESD wrote. Increased use of renewable fuels could, all else being equal, reduce electricity prices, the agency said. However, “as currently presented, this does not appear to be the case,” according to the state’s economic-development experts.

Supporters of a mandated surcharge for renewable sources argue that it will create new jobs at companies supplying the newly favored electricity. But there’s an offsetting danger that *existing* jobs at traditional power plants will disappear. The bottom line: A state mandate itself will not add to employment in the state. Members of the Utility Workers Union of America and International Brotherhood of Electrical Workers expressed such a concern in comments to the PSC: “It is important that economic development opportunities in one portion of the state’s economy do not sacrifice jobs that are viable in another sector of the state’s economy.”

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Proposed carbon dioxide rules will raise rates but won't make a dent in "global warming."

The New York Independent System Operator has warned that bringing significant new amounts of intermittent power into the electrical grid could increase reliability problems. Wind power, for instance, would flow into the grid only when the wind is blowing – creating operational challenges that do not arise with traditional generating plants. The NYISO also warned that the RPS could hinder development of generation powered by natural gas and other fuels by shifting available investment capital entirely into wind, solar and other newly emerging forms of generation.

A tax on oil and coal?

Governors of 10 Northeastern states, including New York, announced in July 2003 they would work together on a regional strategy to reduce carbon dioxide emissions from power plants. The effort is a response to concerns that carbon dioxide and other “greenhouse gases” are causing global warming.

Governor Pataki proposed a system that would combine legal limits on emissions and a market-based trading system that would allow generators to find the most cost-effective way of complying with the new requirements. Such a market-based approach is generally considered to be working well with federally imposed limits on sulfur dioxide.

Even a market-based system, though, would impose new costs on consumers. Representatives from the 10 states are developing specific recommendations, so it's impossible to say what those new costs would be. But a consultant to Governor Pataki's Greenhouse Gas Task Force, which initiated the proposal, estimated that a New York limit of 25 percent below 1990 emissions levels and stabilized emissions in New England states would raise average wholesale electric prices in New York by 6.2 percent. Limits on carbon emissions would drive up utility rates directly by imposing new costs on oil-fired electric generating plants (most of which are downstate) and coal (mainly upstate). Indirect effects, such as increased reliance on natural gas to fuel generation plants, could push prices up still more.

Whatever the cost, the Greenhouse Gas Task Force consultant's report admits that even sharp limits on carbon emissions in New York will not change global temperatures: “Even the most aggressive (greenhouse gas) reduction measures considered in this report would be insufficient to ... prevent serious climate change.” That's because New York, the most fuel-efficient state in the continental U.S., represents less than 1 percent of global carbon emissions. In electric generation, the target of the new proposal, New York's output is an even smaller fraction of the total.

'Real-time' pricing

In April 2003, the Public Service Commission began formally considering a proposal that would require utilities to charge commercial and industrial customers higher rates during times of “peak” consumption in the middle of the day. Rates for night-time usage would go down, creating incentives for businesses to shift operations to the time of day when overall demands on the electrical system are reduced.

Supporters of such “real-time” pricing argue that it would reduce overall consumption at peak usage, and thus reduce the need for new generating plants. That’s a possibility worth careful exploration. But an immediate change such as that originally envisioned by the commission seems an extreme way to implement the concept. Wall Street needs energy-intensive computing and telecommunications equipment during prime trading hours; supermarkets can hardly be expected to turn off freezers on hot summer days. Manufacturers’ production schedules are based partly on factors such as inventory and union contracts that can be difficult to change.

In late October, the PSC decided it will not require real-time pricing now, but may revisit the issue “at the appropriate time.” Instead, it called on utilities to “place increased emphasis” on voluntary programs. The commission based its decision on concerns about potential costs – perhaps a sign that it will give greater attention to costs in other areas, as well.

We need more power, not higher rates

New York needs more power. Businesses and residents alike use more electricity than ever before. We can import some power from other states and Canada, but for cost and reliability reasons we need more generation capacity right here at home – as well as improved transmission and distribution lines to deliver power where it’s needed.

For years, a state law – Article X of the Public Service Law – encouraged development of power plants by providing a “one-stop” permitting process that reduced the time and approvals needed for such plants. The law expired at the end of 2002, largely because of a legislative deadlock over attempts by the state Assembly to add more red tape to the siting process.

Without expedited review and permitting, New York will suffer a shortage of generation capacity before too long. Already, it’s likely that electric prices in the state are higher than they would be if there were more generators competing to sell electricity on the open market. The more demand rises in coming months and years, the more consumers will pay for lack of additional generation.

New York already has experience with the long-term costs of energy policies that seemed like a bright idea at the time. In 1981, for example, state leaders enacted the “six-cent law,” which required utilities to purchase electricity from independent power producers for at least six cents per kilowatt hour. At the time, many experts believed that rising oil prices and other factors would more than justify the mandate.

They were wrong. Instead, oil prices stabilized. Utilities were able to generate or buy power for less than six cents per kilowatt-hour, but the law locked them into long-term contracts even after Governor Cuomo and the Legislature repealed the law some 15 years later. New Yorkers are still paying millions upon millions of dollars a year extra because of yesterday’s short-sighted policies.

Will it happen again?

The siting law has expired, largely because of attempts by the state Assembly to add more red tape to the process.

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Aren't Electric Rates in New York High Enough Already?

Average cost for all customers, cents per kilowatt hour, 2001

Hawaii	14.05	Michigan	6.98	Colorado	6.02
California	11.78	Louisiana	6.96	South Carolina	5.77
New York	11.63	Illinois	6.9	Tennessee	5.62
Massachusetts	11.51	Maryland	6.66	Alabama	5.61
New Hampshire	10.95	Ohio	6.65	North Dakota	5.48
Vermont	10.80	North Carolina	6.63	Oregon	5.44
Rhode Island	10.79	Montana	6.54	Nebraska	5.39
Maine	10.73	Georgia	6.39	Indiana	5.3
Alaska	10.53	South Dakota	6.35	Washington	5.26
Connecticut	9.62	Mississippi	6.26	Utah	5.21
New Jersey	9.42	Kansas	6.24	West Virginia	5.07
Pennsylvania	7.86	Virginia	6.19	Idaho	4.92
Nevada	7.86	Iowa	6.14	Wyoming	4.46
Florida	7.70	Oklahoma	6.1	Kentucky	4.24
Texas	7.40	Wisconsin	6.08	U.S. average	7.32
Arizona	7.27	Arkansas	6.05		
New Mexico	7.16	Minnesota	6.04	New York above avg. by:	+ 58.9%
Delaware	7.01	Missouri	6.03		

Source: U.S. Energy Information Administration