

19. Energy Costs

Independent Power Producers of New York, Inc. (IPPNY)

We encourage an examination of the impact of New York State's specific taxes on energy prices and regional competitiveness, with an eye toward reducing the burden on consumers and businesses.

R.G.S. Energy Group/Rochester Gas & Electric Corporation

Local property taxes, including the special franchise tax, continue to be one of the most significant factors driving energy costs in New York. Current practices are clearly inconsistent with the State policy of reducing energy costs. The local tax system discourages investment and penalizes utility companies and their customers for improvements made to the energy system. The Draft State Energy Plan should recommend an overhaul of these policies, including the practices used to value utility property for real property and special franchise tax purposes.

Response: Section 2.2 of the New York State Energy Plan, Energy and Economic Development, presents discussions of the effects of New York's taxes on energy prices and describes policies the State has established to reduce energy prices. The Energy Planning Board supports efforts to reduce the impact of taxes on energy prices in the State.

Renewable Energy Works

Since the onset of deregulation, an alarming trend has been allowed for utility rate structures. Monthly service charges have been allowed to increase in exchange for keeping unit energy costs down. Those who conserve energy are penalized while those who waste energy are rewarded. These new rate structures also put new companies trying to market clean, renewable energy at a competitive disadvantage. The State Energy Plan should address rate structures as an important no-net-cost means for advancing energy efficiency and renewables.

Independent Power Producers of New York, Inc. (IPPNY)

In order for competition to flourish fully, consumers must have the opportunity to recognize and respond to the true costs of their consumption. This requires retail rate designs, for example, time of pricing, that send proper price signals to consumers and the development of policies that reward users who reduce consumption at times of peak demand.

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Response: Current utility rate structures are changing in recognition of the fact that the industry is in transition from offering fully regulated bundled services to offering a combination of unbundled “competitive” commodity and retailing services and “regulated” delivery services. In the future, utilities will continue to provide fully regulated retail delivery services to all customers using commodity services, whether purchased from the utility or from another provider.

Conservation principles are most directly linked to the “commodity” portion of the consumer's traditionally bundled utility service. The investments and resources (*i.e.*, costs) required to build and maintain the delivery service infrastructure, including wires, pipes, poles, and transformers, are driven primarily by the maximum degree to which customers might individually or coincidentally use the service, rather than its average or ongoing use. Hence, delivery system costs tend to be more fixed in nature, not varying much with changes in customer demand from day to day or season to season as do commodity costs and prices. Therefore, in order to move utility delivery rate designs in a direction that better reflects costs, increases in the fixed charge components of the rates, particularly for the lower-use customer classes, have been necessary. Such changes are not intended to signal customers to consume the “commodity services” wastefully or excessively.

Jamestown Board of Public Utilities (JBPU)

Jamestown is a municipally owned electric utility. The development of the New York Independent System Operator has dramatically expanded our cost in providing service to our community. Without obvious benefit, the NYISO charges have raised costs to supply electricity to our economically depressed community by 25 to 30 percent. We recommend that the State Energy Plan examine these costs seriously and assess the propriety of such costs.

Response: Tariffs and Federal Energy Regulatory Commission orders add to the cost of electricity generation, transmission, and distribution. The additional charges could come from any portion of the total electricity cost.

New York State Environmental Justice Alliance

Residential consumers should be allowed to aggregate their purchase of electricity by geographical area. This would enable a city or county to purchase a large amount of electricity at more favorable large customer rates.

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Consumers should be able to choose innovative energy packages that include efficiency and renewables.

Consumers Union

The State should assist residential consumers to aggregate their purchasing power to achieve the thus-far illusory benefits of market competition.

Response: All customers of regulated utilities are, and have been, allowed to aggregate their purchases of electricity and natural gas. Cities, counties, and other interested organizations can render valuable services to their citizens and members by facilitating aggregation. The Department of Public Service provides information and assistance to organizations and individuals that wish to provide or use aggregation services and NYSERDA provides assistance through its **New York Energy \$martSM** programs .

Alternative Power, Inc.

Some of the things that could really help get more business and more clean energy in New York City would be financial incentives for the distribution companies. With respect to connection to the grid, if there was a financial incentive for a distribution company to allow the loss of revenue to be somehow, through the State or through increased rates afterwards, depending on how they have been impacted, it would be great. Because they will lose business.

Western New York Sustainable Energy Association

The recommendation has to do with establishing efficiency incentives for electric distribution companies. When electricity was deregulated in New York State, not only were efficiency funds for rate payer programs slashed, but the efficiency incentives that utility companies had were also eliminated. There were rate adjustment mechanisms that would reward as well as hold harmless utility companies when they actively promoted efficiency.

Those incentives are gone, and, consequently, the electric utilities make more money by selling or delivering more electricity, and the more we use and the more we waste, the more money that goes into their pockets.

That's contrary to public interest, and there needs to be a decoupling of revenues from sales so that the utility companies can be partners with rate payers and with NYSERDA and others who are looking for a much more energy efficient State.

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Mirant New York, Inc.

In the larger context of costs, there is another raised by the Draft State Energy Plan that needs to be addressed. The Draft State Energy Plan contains a recommendation that “The State should examine the feasibility of effectively aligning public policy interests in energy efficiency, combined heat and power, and indigenous renewable based electricity generation, with the financial interests of utility shareholders and ratepayers.” (Recommendation 5.A.)

To the extent that this recommendation is intended to support the concept of revenue decoupling as that is understood, it is outdated, unnecessary, incompatible with competitive energy markets, and we would oppose it.

Environmental Advocates

There are interconnection barriers, insurance costs, exit fees, back-up charges that are serving as barriers to the development of on-site clean distributed generation. The State Energy Plan should present specific recommendations for overcoming those barriers. The most effective approach will be to de-link the utilities revenue from the volume of sale in order to remove their underlying incentive to block clean distributed generation.

Response: As mentioned elsewhere in the responses to comments, the unbundling or decoupling of delivery and commodity services provides an opportunity to restructure rate designs to better link prices and costs. Transferring delivery service recoveries from variable (per kilowatt hour) to fixed monthly charges in and of itself produces no particular incentive to use more or less of the delivery. In fact, once a customer's access to the delivery system is established, the amount of actual energy (commodity) delivered becomes strictly subject to the commodity price.

Allowing commodity prices to vary with the market enables customers with discretionary uses to either pay or avoid higher prices, depending on their individual energy needs and financial circumstances. Commodity prices can vary on a monthly basis for classes of customers with low levels of use, *e.g.*, residential and non-demand metered commercial customers, or on an hourly basis for high use customers.

Revenue decoupling mechanisms were tried in the late 1980s and 1990s in an effort to encourage regulated utilities to become promoters of customer energy conservation and demand-side management measures. They may be less effective in achieving the desired price signaling to customers than the rate decoupling currently in

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progress as we transition to more competitive service environments. The State Energy Plan suggests that the Public Service Commission study how best to align public policy goals with the interests of utility rate payers and shareholders. (See Section 1.3, Energy Policy Objectives and Recommendations.)

Ann Link

New Yorkers spent \$38 billion on energy in 2000. [too high]

New York is the fourth largest petroleum fuel market in the U.S. and largest market for home heating oil. [too high]

Response: Competition in energy markets will provide consumers with choices among their sources of energy and with choices among methods for reducing their demand for energy. As consumers begin to exercise these options, they will be able to shop for lower energy prices and take advantage of new technologies designed to reduce energy use.

Alternative Power, Inc.

One of the big things that we think can really help us out would be to have a green credit or a trading mechanism available to us, some kind of platform where the green credits that we make, through the green energy that we supply, can somehow be valued, which will help our customers and help us as a business.

Response: Using System Benefits Charge (SBC) funding instituted by the Public Service Commission, NYSERDA is offering several programs through its **New York Energy SmartSM** program to promote green energy. One of these programs is the Environmental Attribute Accounting and Trading System (REACTS) Program. NYSERDA has funded contractors to explore the viability of a system that will facilitate the unique sale and purchase of environmental attributes associated with energy sold and purchased through the Location Based Marginal Pricing market of the New York Independent System Operator.

Mirant New York, Inc.

Extraordinarily, the Draft State Energy Plan offers almost nothing to address one of the most fundamental components of energy prices: government-added costs. Government-added energy costs must be reduced, not increased as they would under the Draft State Energy Plan and as a result of other State actions that are incompatible with the goal of more competitive prices. New York State energy companies have consistently

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lowered their costs and frozen or reduced their prices. Those reductions continue to be largely negated by government-imposed costs: environmental mandates like the pending NOx and SO2 emissions regulations, social and other public programs, off-budget support for State agencies, inappropriate and inefficient facilities relocation practices. (See Response on page 19-7.)

Multiple Intervenors

It is imperative that the Draft State Energy Plan not include any recommendations that will increase energy costs in New York State.

Any recommendations in the State State Energy Plan pertaining to Article X and the siting of power plants should recommend expediting the siting process not imposing additional requirements that will delay construction or increase the cost of new power plants.

The Board should delete any recommendations pertaining to alternative fuels that will increase the price of electricity in New York State. One example is the recommendation that the New York Power Authority and Long Island Power Authority should competitively solicit bids for long-term contracts for the purchase of electricity from renewable energy resources.

The recommendation relating to the development of an indigenous biofuels industry in New York and an expansion of biofuels research and development activities should not be included in the State Energy Plan.

The recommendation that the State significantly increase the amount of renewable energy resources also be deleted from the State Energy Plan. (See Response on page 19-7.)

Multiple Intervenors

Multiple Intervenors lauds the Draft State Energy Plan for recommending the State move expeditiously to a fully competitive electric retail market. The failure to include lower energy prices as an objective of the Plan is inexplicable.

The final Plan must emphasize the need for lower energy prices in New York State. The State Energy Plan should include a specific reduction projection for each year. The Plan's forecast that electric prices will decrease over the Planning Period is overly

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optimistic. The Plan does not recognize the important role of economic development programs in retaining and attracting business to the State.

The draft State Energy Plan does not emphasize the need to move to a fully competitive electric market expeditiously. (See Response on page 19-7.)

Niagara Mohawk Power Corporation

The draft State Energy Plan places a disproportionate emphasis on energy efficiency and renewables relative to their potential contributions to meeting the State's energy requirements. We are even more concerned that the draft State Energy Plan suggests various forms of subsidies and mandates in support of these technologies. Niagara Mohawk is working with marketers of renewable energy products and the Department of Public Service to launch a program that will help promote renewable energy markets. The draft State Energy Plan should emphasize such market based approaches in preference over subsidies and mandates.

Response: New York State has undertaken extensive efforts to reduce its portion of the costs of energy to consumers in the State. Section 2.2 in the State Energy Plan, Energy and Economic Development, addresses some of the steps that the State has taken and some of the steps that still need to be taken. It must be understood, however, that some government-imposed costs are necessary and in the public interest.

Environmental Advocates of New York

We believe there is a need for a conservation contingency plan. No specifics are laid out in the plan for what would happen in case of a fuel cut off for some catastrophic reason.

Response: The State Energy Plan aggressively supports energy efficiency and renewable energy as a means to meet growing demand and encourage energy diversity. This commitment is evidenced by the Energy Planning Board's recommendations in Section 1 of the State Energy Plan. For information about those State energy efficiency programs that are similar in concept to the conservation contingency plan, see Section 3.2 of the Energy Plan. Increased energy efficiency, in effect, reduces the State's need for energy generated from coal, oil, natural gas, and other sources thereby reducing environmental emissions that would occur during the generation process.

The Electricity Assessment, Section 3.4 of the State Energy Plan, describes several actions taken by the State to develop rapid efficiency deployment to meet needs

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during critical times. In March 2001, the PSC approved several programs designed to reduce peak demand for electricity in Con Edison's service area. The PSC also directed all of the State's investor-owned utilities to submit plans to implement customer-incentive programs to reduce peak demand. The PSC subsequently approved these programs and tariffs to implement them. These actions allowed ESCOs and utility supply customers to take advantage of new demand reduction programs offered by the NYISO. By the end of August of 2001, approximately 680 megawatts of demand reduction had registered in the NYISO's Emergency Demand Response Program, which provided 456 megawatts of demand reduction during system emergencies in 2001.

The NYISO's Day Ahead Demand Response Bidding Program similarly provided opportunity for relief during summer 2001, with as much as 171 megawatts of reduction available in a given hour from parties registered to participate in this program.

In addition, the System Benefits Charge programs administered by NYSERDA reduced demand by about 90 megawatts. Additional savings resulted from plans developed to reduce government energy usage during peak periods, public appeals, and other utility programs.

The PSC also required utilities to prepare detailed public awareness plans describing their steps to raise awareness and inform customers on the load and capacity situation and describing actions that consumers can take to control their energy use. Special focus was on the business community where the greatest results are expected in the shortest amount of time.

Pace University School of Law; Pace Energy Project

The Draft State Energy Plan fails to address the fundamental barrier to greater retail choice – the prevailing “shopping credit” or “price to compare.” With current utility rates, small consumers have no financial incentive to migrate from default service. The New York PSC and the State Energy Plan should seriously consider options to be pursued in the event that few customers are inclined to leave the regulated utilities.

Another issue that receives scant attention in the Draft State Energy Plan is whether there will be sufficient price responsive load to produce workably competitive markets. Many analysts have concluded that only ten to 20 percent of the total load or demand needs to be price responsive in order to capture most of the price reductions that are possible. However, there is no evidence that New York will be able to achieve that level of price responsiveness. The State Energy Plan should examine this issue

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thoroughly because it is of great consequence in terms of prices and the exercise of market power.

Further, the State Energy Plan should consider the consequences and alternatives in the event that adequate price responsiveness is not forthcoming from the market. We should have a reasonably good idea of how much price responsiveness can be achieved after the next two years' experience with the NYISO's economic day ahead price response program. If that program fails to gain a five to ten percent peak price responsiveness, using its significant incentives, then there should be considerable doubt about the market's ability to provide adequate price responsiveness. The State Energy Plan should address this possibility, consider its implications, and perhaps being to develop alternatives.

The State Energy Plan should evaluate and adopt policy options for addressing the meager choices and mediocre service currently available to residential and small commercial consumers.

Another issue that should be discussed is competitive bidding for the role of default supplier. The default service function should not inevitably devolve to the distribution utility but instead be subject to competitive bid.

Response: The matters raised by Pace are currently the subject of ongoing proceedings taking place at the Public Service Commission. Consequently, it would be premature to attempt to address these matters at this time. The PSC currently has a proceeding underway to unbundle utility rates. Out of this proceeding will come the appropriate charges for commodity and related commodity services. This proceeding will also determine the future course of retail competition in New York State, including the several issues raised by Pace.

With regard to the price responsiveness programs, efforts are underway to expand on the benefits achieved in 2001. If the market chooses not to provide the necessary demand responsiveness, additional generation resources may be required.

Wedlyne Guerrier

I think instead of the State having little direct control over wholesale price of energy, the State should petition to U.S. Congress to have more control over the situation, not necessarily total control, but enough to have a significant impact on the competitive market.

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Response: As noted elsewhere in the responses to comments, effective competition in the natural gas and electricity markets, where practical, is the policy of the State. The policies and recommendations forming the State Energy Plan are based on this concept, and the State Energy Plans, since 1994, have embraced the idea that competition has the potential to reduce energy costs, increase customer choices and satisfaction, promote economic development, enhance system reliability, improve environmental quality, and promote technological growth. In the past, regulatory controls were inadequate to protect consumer against volatile and inefficient prices of energy. The Energy Planning Board believes that, in the long run, market forces are the best mechanism to control wholesale prices.

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