

July 11, 2010

Rate increase for RG&E and NYSEG might be a week away

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After initially proposing large rate increases, Rochester Gas and Electric Corp. and its sister company, New York State Electric and Gas Corp., appear to be on track to win approval of smaller increases from state regulators.

The staff of the state Public Service Commission is working on a joint proposal with RG&E and NYSEG, and the sides believe they will reach agreement this week, according to commission spokesman James Denn.

At stake is how much Rochester-area residents and businesses pay for the delivery of electricity and natural gas. Delivery charges account for almost one-third of a customer's monthly bill. The majority of the bill — supply costs and taxes — are not part of these rate cases.

What has been striking about the cases is a lack of strong opposition, perhaps because the utilities haven't been granted rate increases since 1996. During that 14-year period, overall consumer prices have risen 39 percent.

The most outspoken opponents have been some advocates for low-income residents.

"The rich can afford the rates. The poor cannot," said Sister Grace Miller, who runs the House of Mercy on Hudson Avenue. She was among many speakers who participated in a public comment session at City Hall and criticized the rate increases as a hardship that would force low-income households to choose between paying their utilities and paying their rent.

The companies reduced the size of their requests soon after that session in late April. RG&E is now seeking a total of \$50 million a year while NYSEG is asking for \$123 million. Monthly bills would rise about 6 percent for RG&E electricity and gas customers and 9 percent for NYSEG customers.

Some organizations that might have opposed higher rates haven't done so this time. The New York Public Utility Law Project, hurt by the lack of a state budget, is running on the fumes of the cash it has left.

Gerald Norlander, executive director of the organization, which represents low-income ratepayers, said the Public Utility Law Project hasn't been able to take a position on the rate cases. "We've been stagnating for a decade, and unless something happens (in the state budget process), we're out of business," he said.

The New York Consumer Protection Board has endorsed plans by RG&E and NYSEG to set aside cash to assist low-income customers, but "no position in the overall rate case has been taken," said spokesman Gary Brown.

On the business front, Rochester Business Alliance CEO Sandy Parker said the organization generally, and unofficially, supports the rate increase for RG&E. She said the utility has gone so long without an increase that it needs the revenue to ensure the functioning of its infrastructure.

Xerox Corp. is one major local employer that publicly opposed the initial rate requests. In a letter in March, Xerox stated its utility costs would increase by \$5 million a year and "could have significant financial repercussions for Xerox's New York operations."

Although RG&E and NYSEG have since lowered their requests, Xerox indicated it hasn't changed its position. "We have nothing to add on the rate increases beyond what we filed," said Bill McKee, a Xerox spokesman. "We have great respect for RG&E as a Rochester business and would like to see them take action to help other local businesses."

If the higher rates are approved, they probably would take effect in September. A typical residential customer who gets both electricity and natural gas from RG&E would pay an additional \$12.54 a month, while the typical NYSEG customer would pay \$19.17 more.

The agreement being worked on by the companies and the Public Service Commission could change those figures, which were revised sharply downward from the original estimates of \$32.89 per month for RG&E and \$37.73 for NYSEG.

Another factor that might have quieted opposition is a drop in the supply costs that account for slightly more than half of the monthly bill. The costs of the actual commodities — electricity and natural gas — are set by the marketplace, not the utilities, and they have fallen significantly.

According to the New York Independent System Operator, the agency that oversees the statewide power grid, the wholesale price of electricity has dropped from \$100 per megawatt hour in 2008 to \$50 today.

Still, New Yorkers have the third-highest electricity bills in the nation, topped only by Hawaii and Connecticut. In natural gas bills, the state ranks No. 11, although costs have dropped almost 50 percent since peaking in the summer of 2008, when commodity prices hit all-time highs.

The reason electricity costs are comparatively high is that about 60 percent of New York's power is generated by natural gas and oil, which tend to be more expensive than coal, nuclear energy and hydropower. Kenneth Klapp of the Independent System Operator said New York's six nuclear power stations, its few coal plants and its hydropower stations are much cheaper to buy from but don't provide the total megawatts needed, especially in the summer when heat waves like last week's put stress on the grid.

Utilities' plans

For their part, RG&E and NYSEG say they need more money for maintenance and new equipment, despite having solid reliability records for their electricity service.

The recession decreased revenues to utility companies across the country, while their costs for items such as transformers and copper wire have kept going up.

Company officials said they also have to deal with rising pension costs and the high cost of borrowing.

Mark S. Lynch, the new president of RG&E and NYSEG, said in an interview that ratepayers will get their money's worth if rates are raised.

"We've made a commitment to be the best utilities in the Northeast," Lynch said. "We have a renewed commitment to look at best practices."

He said the companies would make \$270 million in capital expenditures. They still have to disburse \$275 million in concessions to ratepayers as part of an agreement made with the Public Service Commission in 2008, when then-parent company Energy East of Portland, Maine, was sold to Iberdrola SA of Bilbao, Spain.

In the decade and a half since the last rate increase, when inflation has risen almost 40 percent, copper power lines have increased in cost by 67 percent and transformers have shot up by 149 percent, Lynch said. RG&E alone has 61,000 miles of lines and 370,000 transformers.

Lynch said a significant problem has been the cost of borrowing to pay for system improvements. RG&E has a BBB credit rating while NYSEG's is slightly better at BBB+. But those ratings are the lowest among New York utilities and mean the companies have to pay more for capital, with the higher costs getting passed on to consumers.

The credit ratings are low because the companies' rates are relatively low, said RG&E spokesman Robert Bergin. Increased rates could improve their standings with the credit-rating agencies, resulting in less spending on debt service and better cash flow.

"You need to have a revenue stream that investors, when they look at it, are confident you'll be able to pay them back," Bergin said.