



PO Box 700
Jamestown, NY 14702-0700

ELECTRIC
DISTRICT HEAT
WATER
WASTEWATER
SOLID WASTE

Readers' Forum
Post-Journal
15 West Second Street
Jamestown, NY 14701

November 4, 2005

To the Readers' Forum:

In response to the recent letter from John Smyak regarding his questions on other power/gas suppliers, I will attempt to provide some answers.

There are three types of electric utility ownership in the U.S. Most customers in the nation (76%) are served by stock-holder owned companies (**investor-owned utilities or IOU's**), 14% are served by municipal and other state or local government-owned utilities (**public power utilities**) and 10% are served by **electric cooperatives**. Co-ops serve approximately 75% of the land area (mostly rural). Public power utilities are the most numerous, with about 2,000, compared to 900 co-ops and 225 IOUs. By far the greatest share of electric generating plants and transmission lines is owned or controlled by the IOUs.

The Board of Public Utilities is one of 51 municipal utilities in New York State. There are also seven investor-owned utilities (IOUs) in New York, the closest to Jamestown being National Grid (formerly Niagara Mohawk) and New York State Electric and Gas (NYSEG).

Most public power utilities and nearly all electric co-ops purchase the majority of their electricity at **wholesale** from other utilities. They then distribute and resell it to **retail** customers in their respective service areas.

Most electric utility regulation has been accomplished at the state or local level. Electrification of the nation's cities and towns began in the late 1800s, usually under the franchise granted by the government. (The BPU's 23-square mile franchise territory was established by the New York State Public Service Commission in 1931. Up until that time, the Jamestown BPU and the Niagara, Lockport and Ontario Power Company each strung electric lines on both sides of the streets and aggressively competed for customers.) These franchises continue today as a means to regulate IOUs.

The **Federal Energy Regulatory Commission (FERC)** is an independent regulatory agency within the U.S. Department of Energy whose principal function is to regulate rates for wholesale electric sales and transmission of electricity in interstate commerce.

The restructuring of the electric utility industry has its origin in the notion that customers should be able to determine when, from whom and at what price they purchase goods and services. Beginning in the late 1990s, and influenced by the restructuring of the natural gas, television and telephone services, electric customers began to hear about deregulation and increased competition in the electric industry. Deregulation of the electric industry, the ability to choose your energy provider, is presently in effect **ONLY** for the investor owned utilities, **NOT** municipal utilities.

In addition to a rise in consumerism, one of the most important forces driving change in the electric utility industry is the existing disparity in retail pricing of electricity. Commercial and industrial customers of electric utilities are now much more aggressive in looking for ways to reduce operating costs and gain a competitive edge. Regional cost and price differences have also created opportunities for non-utility **electricity merchants** who see the opportunity to participate in the \$250 billion annual electric energy market.

The electric energy value stream involves several important processes. Before producing electricity, a utility must secure the first component of value - a reliable source of raw energy. The utility then creates the second element of value by conversion of the raw energy to electric energy. The third element of value is the physical movement of the energy to its point of use through a network of high and low voltage transmission lines. Finally, the utility creates the fourth value component by measuring (metering) the customer's electric usage, provides information to the customer about the electric use,

corrects customer service problems and charges the customer for the service. The customer pays for all of the elements of the energy with a single monthly payment.

In the past, the single electric utility, operating in an authorized franchise territory, has provided all the functions and elements of the electric energy stream (fuel supply, generation, transmission, distribution and end-use services). This has been done by owning and operating the infrastructure needed to deliver the end-use services, or by purchasing a portion of those services from others. For example, a local distribution company might purchase all of the electricity needed by its customers from a wholesale generator and contract for the delivery of the electricity to its system over transmission lines owned by others.

The **National Energy Policy Act of 1992 (EPACT)** has been the primary legislative driver for electric utility restructuring. The Law mandated competition in the wholesale electric marketplace and rules to allow nondiscriminatory open access to the national electric transmission system. In April 1966, the FERC issued Order Number 888 requiring IOUs engaged in interstate transmission to file an open access tariff.

This resulted in the creation of **independent system operators (ISOs)** by regional reliability councils to control and ensure the integrity of the integrated transmission grid.

The electric energy business structure that is now evolving in the U.S. will be much more complex with many more participants and a wider range of business transactions.

The traditional electric utility has been replaced by four separate entities – the generating company (genco), the transmission company (transco), the distribution company (disco), and the retail energy services company (resco). The resco makes all of the arrangements needed to purchase electricity and then secures capacity of the transmission and distribution systems that is needed to deliver the electricity to the end-use customer. It is expected that the resco will be able to provide a wide range of customer choices with respect to the cost and reliability of electricity secured from the regional market and delivered over the regional transmission system.

Rescos operate largely without regulatory oversight but there may be exceptions to this general use. Retail service is already an area of intense interest among a wide range of service providers. Banking and credit card institutions, telecommunications companies, electric utilities and others are positioning themselves to secure or retain brand name recognition and access to a wide range of customer purchasing decisions.

The Board of Public utilities purchases 80% of the power it needs from the New York Power Authority which is delivered from the Niagara Falls plant to the BPU territory over transmission lines owned by National Grid (formerly Niagara Mohawk). The BPU distributes that power to its customers in its franchise territory over power lines it owns and maintains. Therefore the BPU pays an energy charge to NYPA and a delivery charge to National Grid. If more power is needed to supply Jamestown customers, the BPU generates it at its coal-fired power plant on Steele Street, blends that power with the NYPA hydropower and distributes that power on its transmission lines as well. This power includes an energy charge and a fuel cost adjustment charge. The BPU provides its own customer services, meters, and billing and collections services.

Current BPU residential rates as of November 1, 2005 are:

- \$5.50 monthly Basic Service charge
- \$0.03798 energy charge per kilowatt hour,
- New York State tax, and
- Fluctuating fuel cost adjustment charge.

Current National Grid residential rates are:

- \$14.92 monthly Basic Service charge,
- \$0.04742 energy charge per kilowatt hour,
- New York State tax, and
- Fluctuating fuel cost adjustment charge,
- Delivery charge adjustment,
- Fluctuating transmission revenue adjustment, and
- \$0.10 (approximate) electric supply charge.