Why Are New York City's Electricity Rates So High?

Electricity rates in New York City are among the highest in the nation and pose an impediment to the city's continuing effort to maintain and expand employment for its residents. High electricity costs have recently been an important consideration in negotiations between the city and some financial service firms regarding the possible relocation of their back-office operations.

Consolidated Edison Company of New York (Con Ed), which serves the five boroughs of New York City and also Westchester County, leads the nation in the cost of 12 customer usage categories and has the second highest charges in the remaining three.[1] All classes of Con Ed's customers—residential, commercial, and industrial—face these high electricity bills. Moreover, based on data for residential customers of 60 major utilities in the United States, the discrepancy between electricity rates at Con Ed and other utilities is not only substantial but, in dollar amounts, has been growing over time (Chart 1).

High electricity rates in the Second Federal Reserve District are not restricted to Con Ed. In 1983 most of the District's private utilities had rates above the United States average, with the highest occurring in the downstate New York and New Jersey area (Chart 2). Several other Second District companies also stand among the ten private utilities with the highest electricity rates in various customer usage categories. However, none of these companies appears as frequently or as consistently with a high ranking as Con Ed. In addition, significant differences exist between the level of Con Ed's rates and those of the other Second District utilities. For example, in the case of a household using 500 kilowatt-hours of electricity, Con Ed charged some $13 more per month than did the next highest Second District utility on the top ten listing.

Discussions of the marked differences in electricity costs between Con Ed and other companies tend to focus on single explanations, high taxes being a factor often mentioned by local utility spokesmen. In actuality, a number of factors contribute to the differences:

High peak, low average demand. An electric power company must make the capital investment to meet peak demand and all its ratepayers must share this cost. A 1980 study comparing seven other large, urban utilities with Con Ed found its peak demand to be among the highest of the group, whereas its per customer usage was only half the seven-firm average.[2] Con Ed's fixed costs are large relative to usage and as a result, each kilowatt-hour consumed by Con Ed customers carries a relatively high fixed-cost burden.

Oil. Con Ed relies very heavily on oil for power generation whereas the nation as a whole depends to a much greater extent on less expensive coal, gas, and hydropower. In 1982 the average cost of oil was three times greater than the cost of coal per unit of generating power.

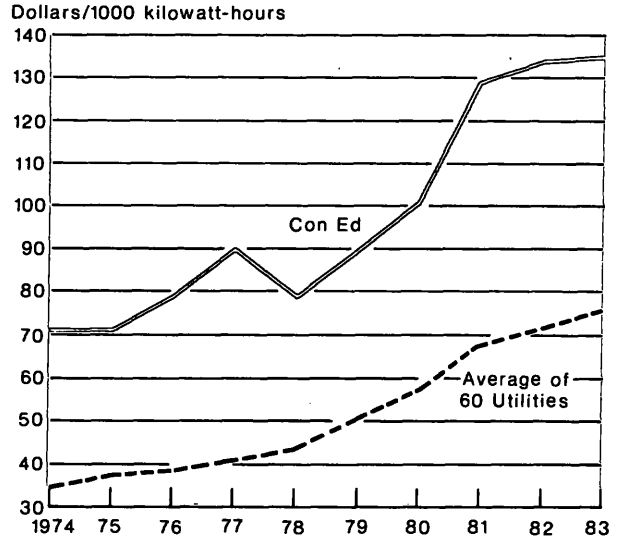
Low sulfur oil. Due to environmental considerations, Con Ed must burn oil with low sulfur content rather than less expensive high sulfur oil or coal. The cost of low sulfur oil is currently some 20 percent greater than high sulfur oil and at times in recent years has been as high as 40 percent greater.

[1]United States Department of Energy, *Typical Electric Bills January 1, 1983.*

[2]Theodore Barry and Associates, *Evaluation of Electric Supply Options for the City of New York, Part I,* February 1980.

Chart 1

Typical Residential Electric Bills of Sixty United States Utilities



Plottings are for December of each year.

Source: Jacksonville (Florida) Electric Authority's Comparison of Monthly Residential Electric Rates.

Limited Use of Hydropower. Because of both an inadequate power transmission network in New York State and legal constraints on hydropower distribution, Con Ed's purchases of this inexpensive fuel from upstate New York and Canada amount to only a small percentage of its total requirements.

Taxes. While state and local taxes paid by utilities in New York State are the highest in the nation, downstate New York utilities are taxed even more heavily than their upstate counterparts. In 1982 for example, state and local taxes as a percentage of electric utility revenues were 18 percent and 17.2 percent at Con Ed and the Long Island Lighting Company, respectively. The weighted average for the five other privately owned utilities in New York State, however, was only 11.8 percent.

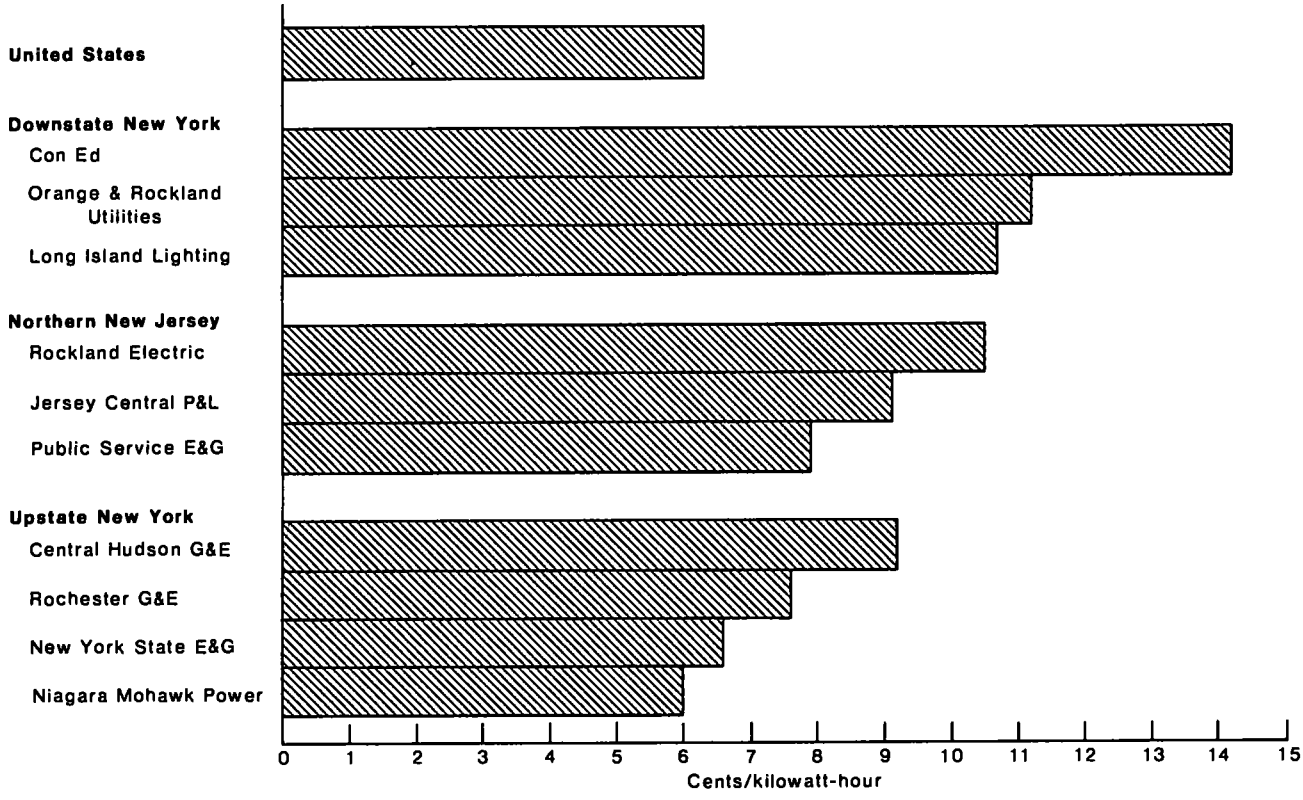
Underground transmission. Con Ed utilizes an underground transmission system which is two to three times more expensive to install than an overhead distribution system. In addition, maintenance of an underground system is also more costly than the upkeep of above ground lines.

An excessive rate of return does not seem to be one of the reasons for Con Ed's high electricity costs. Informal estimates by the New York State Department of Public Service of rates of return to New York's private electric utilities for 1981 and 1982 show that Con Ed's were the lowest.

Because high electricity rates add significantly to the cost of living and doing business in the New York City area, it is worth considering ways of reducing this problem. Con Ed's reliance on expensive fuel is the most likely candidate for change and the company already has plans for lowering this cost. Among other

Chart 2

Average Price of Electricity Supplied to all Customers in 1983



Sources: New York State Energy Office and New Jersey Department of Energy.

things, it is seeking permission to substitute coal for oil in some of its generating plants and also has asked for additional transmission lines to less expensive upstate and Canadian power sources. A lower tax burden could also reduce costs and Con Ed has pursued, and continues to pursue, this remedy as well. Finally, Con Ed's unusually wide disparity between peak and average demand might be reduced somewhat by more aggressive use of such incentives as seasonal and time of day pricing. The only cost factor that probably cannot be remedied is Con Ed's expensive underground transmission system.

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