Dissecting Your Electric Bill

August 16, 2010

Since the implementation of competitive electricity markets in the 1990's, New Yorkers have been able to effectively 'shop' for their electricity provider. The New York Public Service Commission (PSC) began by 'unbundling' customers energy bills; separating charges for delivering energy to your home or business from charges for the electricity itself. Each bill delivered to a customer is made up of three basic charges – the price the companies that produce electricity charge, the fee for delivery of this electricity, and additional taxes and fees.

An electricity bill can be daunting – with well over a dozen or even 15 line items. This issue brief outlines what these items are and how they came to be included on bills.

The major utilities in New York (Consolidated Edison, Central Hudson, National Grid, New York State Electric & Gas, Rochester Gas & Electric, Orange and Rockland and Long Island Power Authority) deliver electricity and respond to service interruptions and outages. Following the unbundling, customers can now choose their electric provider, known as an Energy Service Company, or ESCOs. These ESCO's compete for your business in most utility areas. In New York, each local utility continues to offer what is called 'default service' or service to customers in their region who have never shopped for or refuse an energy provider. This default service serves as a benchmark for pricing the market.

New York's electric transmission system is extensive and requires continuous upgrades and maintenance. New York City represents a special case, as the majority of the electrical grid is located underground, making repairs and upgrades more complicated and costly. Utilities often have a difficult time ensuring they can recover costs as all rate changes must be approved by the Public Service Commission.

Each utility sets its default service price differently based on a number of factors including geographic region and customer base. The rates typically vary by month and include a mix of supply bought on long-term hedges as well as short-term market purchases. For this reason, as well as customer usage trends, utility prices fluctuate throughout the year.

Beyond the cost of the actual commodity, many customers are surprised to learn that the delivery charges included in their electric bill are occasionally higher than the cost of the electricity used. The major reasons for this are the fees and other charges that are included in the delivery cost. Some of the fees are state charges, some are environmental regulations and some were designed to separate the revenues of a utility from customer electric usage, commonly referred to as "decoupling." In this way, utilities can promote efficiency and reduced electric usage without concern for recouping the cost of doing business.

Electric bills contain a number of adjustments and fees that can be quite confusing. An electric bill is an estimated - not actual - cost of power. Utility companies do not have real-time reads of the electricity used in each household, nor can they predict the price of power selling in an open market. Instead, your monthly bill is an estimate of usage for the given month, combined with adjustments based on your last bill. Charges from excessive electric usage in August may show up in the bill a month later. Conversely, reducing electric usage now may result in savings weeks later.

The following page contains a sample bill (based on Con Edison customer charges) with a description of each fee or charge. As you will see, the taxes and fees placed on electricity in New York State are numerous and add a significant amount to the bill. For the purpose of this issue brief, 750 kilowatt hours (kWh) of electricity is used as a monthly household average.

Sample Electric Bill

Electricity Used in Month: **750 kWh**

Delivery	Cost per kWh		Actual cost for 750 kWh
Basic Service Charge	1 Month @	14.1800	14.18
Delivery Charge	750 kWh @	0.0667	47.37
Bill Issuance Charge, per bill	One Bill @	0.9400	0.94
Temporary State Assessment Surcharge	750 kWh @	0.0038	2.84
Revenue Decoupling Adjustment	750 kWh @	0.0073	5.47
Delivery Revenue Adjustment	750 kWh @	0.0004	0.29
Monthly Adjustment	750 kWh @	0.0157	11.76
System Benefit Charge	750 kWh @	0.0044	3.30
Renewable Portfolio Charge	750 kWh @	0.0010	0.75
Monthly Adjustment Charge (MAC)	750 kWh @	0.0061	4.60
Taxes (New York City)		4.8874	4.47
Total Delivery Charges			**$95.97**
Electric Supply			
Electric Supply	750 kWh @	0.1010	75.74
Merchant Function Charge	750 kWh @	0.0050	3.73
Market Supply Charge (MSC I)	750 kWh @	(0.0196)	(14.71)
Market Supply Charge (MSC II)	750 kWh @	(0.0016)	(1.22)
Taxes		2.4066	1.53
Total Supply Charges			**$65.06**
Total Electric Charge:			**$161.02**

* Parenthesis indicate a negative charge

Charges Defined

Delivery Charges

Basic Service Charge: Charge from utility company each month regardless of power usage. This charge varies by utility company and region. Cost can be anywhere from $10 to $20. It includes maintenance costs for electric lines, meter reading fees and other costs.

Delivery Charge: The delivery charge is calculated per kWh of electricity consumed. It is solely dependent on the utility and geographic location. This number will fluctuate depending on the electricity used by the household. Charges vary from $.02 to $.06 depending on service provider. Some utilizes in New York charge one rate for the first 250 kWh delivered and a slightly reduced rate for any electricity delivered over 250 kWh.

Bill Issuance Charge: This charge is constant and given for each bill issued. Only two utilities in New York charge this fee, which is typically under $1.

Revenue Decoupling Adjustment: A mechanism installed by the Public Service Commission to minimize the impact to utilities from reduced energy consumption. The charge is designed to separate the intrinsic relationship between increased electric usage to increased revenues of a utility. Utilities can promote efficiency and reduced energy consumption without

Delivery Revenue Adjustment: An adjustment for Standard Rate Service customers which provides partial financial protection against the fluctuations between actual cost and the forecast cost of electricity supply upon which rates are established.

Taxes and Environmental Fees

Temporary State Assessment Surcharge: A tax or fee put into electric bills by the New York State legislature as a way to meet budget concerns of the state. (Assembly Bill 00159)

System Benefits Charge: The System Benefits Charge (SBC) recovers the cost of mandated energy efficiency, environmental protection and low income assistance programs. The SBC is designed to fund public policy initiatives that cannot be adequately addressed by New York's competitive electric market. The current funding level is $175 million annually. The revenues of this fee do not go to the utility, but rather the New York State Research and Development Authority (NYSERDA).

Renewable Portfolio Charge: The Renewable Portfolio Standard (RPS) charge recovers the cost of renewable resource programs. For billing purposes, these two charges are often combined, and named System Benefits Charge/Renewable Portfolio Standard Charge. Initially proposed as a mechanism to support renewable energy development in competitively restructured electricity markets, the RPS model today serves additional policy aims such as fuel diversity and in-state economic development.

Electric Supply Charges

The MSC and MFC combined dictate what a customer pays for energy supply as opposed to delivery.

Market Supply Charge – The price the utility pays for the pure electricity you consume. This charge is the major component of your total electricity supply cost. The MSC is dependent on your location and the electric rate. If you purchase your electric supply from and ESCO, the MSC you pay will be based on your agreement with that company.

Merchant Function Charge – covers the other costs involved with serving you on default service, such as billing and collection charges.

Other charges that may appear on your bill:

Electric Revenue Adjustment Mechanism (ERAM)

A device intended to insulate a utility's margin (non-fuel related revenues) from variations from electric sales forecasts used to establish a utility's revenue requirement in rate proceedings.

Customer Charge

The charge to a customer which is designed to compensate the utility for the costs it incurs as a result of that customer's subscription to utility service, irrespective of the customer's eventual demand or energy use. For example, metering costs include the cost of the meter and the cost of mutual reading.

Demand charge

The charge to a customer based on the maximum demand generally denoted in kilowatts its use of electricity places on the system. The demand charge is designed to compensate the utility for the fixed costs of equipment required to meet the demand.

Fuel adjustment clause (FAC)

A rate mechanism designed originally to reflect month-to-month changes in the cost of fuel per kilowatt hour in customers' bills. The Commission generally limits the pass through in accordance with fuel cost estimates adopted in rate cases. FAC also is used to flow credits and refunds of limited duration to ratepayers.

Purchased Power Adjustment: A utility or ESCO may establish long term contracts with a generator for a specific amount of power at a fixed rate, this is called a power purchase agreement. This allows the utility or ESCO to benefit from a predictable price for power. If the ESCO or utility must purchase power outside the agreement from the open market, an adjustment is then included in the bill.

Additional Resources

New York State Department of Public Service
http://www.dps.state.ny.us/TypicalBills.htm

Con Edison
http://www.coned.com/customercentral/threebill_D19_ResDual.asp

Orange and Rockland
http://www.oru.com/customerservice/askusaquestion/aboutbilling/understandingyourbill.html

New York State Electric and Gas (NYSEG)
http://www.nyseg.com/YourAccount/readingyourbill/default.html

Rochester Gas and Electric
http://www.rge.com/YourAccount/readingyourbill/default.html

National Grid
http://www.nationalgridus.com/niagaramohawk/home/rates/3_aboutbill.asp

Central Hudson
http://www.cenhud.com/pdf/ratesummary09.pdf

Long Island Power Authority
http://www.lipower.org/residential/custserv/faq/faq-bill.html

About New York AREA: Founded in November 2003, the New York Affordable Reliable Electricity Alliance (New York AREA) is a diverse group of more than 150 business, labor, and community groups whose mission and purpose is to ensure that New York has an ample and reliable electricity supply, and economic prosperity for years to come. New York AREA helps to educate policy makers, businesses, and the general public regarding the necessity and importance of safe, low-cost and reliable electricity.

For additional information visit: www.area-alliance.org.