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'Capacity Zone' could cost customers millions

NYISO plans to implement new zone at start of 2014/2015 capacity year

Last month the Federal Energy Regulatory Commission (FERC) approved the NYISO's proposed tariff revisions to establish a new capacity zone in the state. The zone will encompass Load Zones G, H and I, the Lower Hudson Valley, which will include Central Hudson's service territory, as well as Zone J, New York City. The change is intended to send clear price signals to build new generation in the Hudson Valley, but will significantly impact customer bills – especially those in Central Hudson's service territory.

"We have been involved with this issue since it was first proposed seven years ago," said Senior Director of Energy Policy and Transmission Development John Borchert, who has been working closely with other New York Transmission Owners (NYTOs) whose customers will also be impacted by the proposed zone.

"As the formulation of the new capacity zone and its impacts became clearer over the past year, we've filed multiple appeals to lessen the impact on our customers," Borchert said.

Current lower-Hudson Valley capacity zones includes the zone in which Central Hudson's service territory lies, as well as zones that encompass customers of Orange & Rockland, NYSEG and Consolidated Edison. With the proposed change, Load Zone K would remain separate, but a new super-zone would encompass Load Zones G, H, I and J.

Central Hudson's service territory, right, is in capacity zones G, H and I. The zones are designated by the New York Independent System Operator and changes could be coming soon.

With these new rules in place, utilities and other suppliers will have to buy a majority of their capacity from within their designated zone(s),

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which, for Central Hudson customers, will drive up costs. The impact to customers in New York City and Long Island will be minimal and upstate customers will actually see a small decrease in their costs.

Borchert says the change could cause capacity prices for Central Hudson to increase dramatically – up to 275 percent higher than they are today, and could cause customer bills to increase by as much as 7 percent. This is on top of the already increasing capacity costs due to the Danskammer plant retirement after Superstorm Sandy rendered it inoperable. In all, Central Hudson customers could see a bill increase approaching 15 percent by 2015.

But the NYISO, or New York Independent System Operator, claims the benefits of the new capacity zone outweigh what the New York State Public Service Commission (PSC) calls "unjust and unreasonable rates" for consumers. According to the NYISO, in addition to encouraging generation investment and possibly preventing further generator retirement, the new capacity zone may also encourage transmission investment to relieve the highway deliverability constraint from upstate to downstate New York.

Anatomy of a utility bill

Central Hudson bills are made up of a delivery component and the supply – energy and capacity – that Central Hudson or other providers purchase. To fully understand the impact the proposed capacity zone will have on Central Hudson customers, Borchert says one must first understand these components.

"The delivery portion is the pipes and wires part of the bill where Central Hudson's costs are covered through rates and rate filings. These costs will not be directly impacted by this new capacity zone," Borchert said.

"The supply component is the costs associated with the purchase of energy and capacity through contracts or on the open market," he explained.

Both the energy, or the kWh that customers use, and the capacity, the peak load that a system will see, are purchased through the NYISO market. Currently, these costs make up about 40 percent of the overall customer bill, but Borchert warns that could change with the implementation of a new capacity zone.

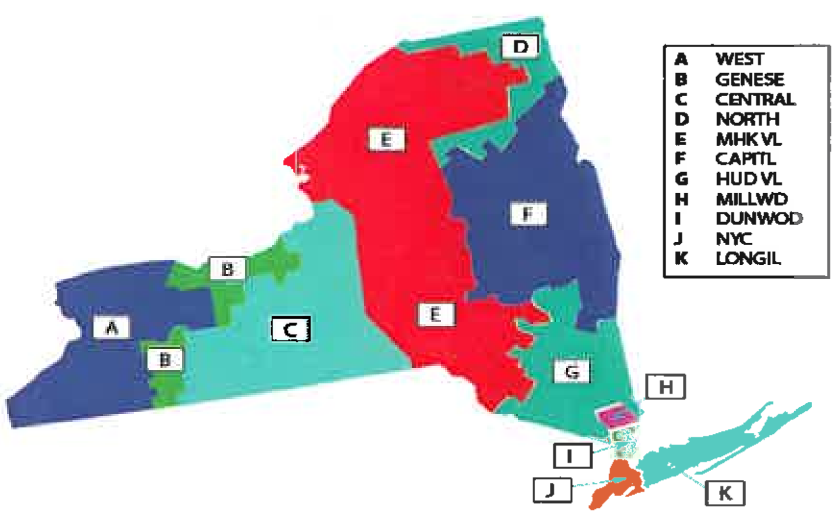
Those costs – supply costs – are adjusted monthly and a direct pass-through to customers, which means a rate filing is not required to pass those costs along to consumers.

Mapping the cost

Currently, there are 11 separate Load Zones in New York, lettered from A through K. Zones A through F, referred to as "UPNY," include areas primarily north and west of Central Hudson's service territory. In the Southeast New York region (SENY), Load Zones G through I, include most or all of Ulster, Dutchess, Orange, Rockland, Putnam and Westchester counties. Load Zone J represents New York City, and Load Zone K is entirely made up of Nassau and Suffolk counties on Long Island.

A study performed by the NYISO regarding the new capacity zone determined that the "UPNY/SENY interface," the route through which energy travels, was constrained because it was bottling generation from Load Zones A through F.

The NYISO plans to implement the new G through J capacity zone on May 1, 2014, in time for the 2014/15 capacity year. ■



As of May 1, 2014, the New York Independent System Operator plans to implement a new super-zone that will include capacity zones G, H, I and J. Load Zone J represents New York City on the map above. The proposed capacity zone could cost customers in the "SENY" region millions.

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