The Case for a Study to Determine The Feasibility of a Publicly-Owned Utility in New York City

Consolidated Edison Company of New York has asked for a 21.7% rate increase amounting to almost one-half billion dollars that will be gouged from residents, businesses and the City government. Those whose jobs and quality of life are directly dependent upon the financial stability of this city cannot read of such a request without despair.

Consumer Affairs Commissioner Elinor Guggenheimer called the rate increase proposal "a direct threat to the economic well-being of New York City." Her reaction arises from the realization that utility costs are a major factor in budget deficits at all levels of city life. This is because the rate request followed a 1974 rate increase approved by the Public Service Commission committing us to the highest rates in the nation - twice the national average.

Charles Luce, Chairman of Con Ed's Board, attempts to justify his latest request with a slightly different twist on the old theme. The old Con Ed story was that their rate of return on their capital investment (lines, generators, etc.) was never high enough to make their bonds attractive to Wall St., unless handled at a prohibitive interest level. Thus the PSC mandated rate of return of 8% was not enough. It had to be raised to make the bonds more attractive, therefore, utility rates had to be raised to allow this higher rate of return. The bond purchaser was gifted with higher interest.

Now, the story is that they will need a higher rate of return <u>in the future</u> to interest buyers. In other words, Luce has a crystal ball and knows what will be attractive in a year or two. We are supposed to pay a stepped up rate so he can meet that future eventuality. The rate of return for which he feels our utility rates should pay is 17%.

The City Club of New York stated in its May issue of Comments, "It is obvious that though Con Ed may be pleasing its lenders and investors more these days, it is doing so at the expense of the consuming public, both where it lives and where it works. From the standpoint of the welfare of New York City and its residents, Con Ed's demands are a disaster and could, if permitted to continue to escalate, destroy tenants and landlords, workers and employers."

A logical question that is raised in most persons' minds is "Why is the PSC, the regulatory body, allowing this to happen?" The reason is, that even if they wanted to deny rate increases, there is little the law allows in order to do so.

The law mandates "a reasonable rate of return on investment," which is traditionally around 7-8%. This does not include operating costs, but it does include interest on loans to build capital investments as well as the construction, itself. The result is that every expansion becomes a higher rate for the consumer. Therein lies the reason that rate hike fights fail.

The next question is - "If construction pushes up costs and allows rate hikes, must we build?" Luce, like most utility leaders in the private sector, say yes unless you want failures during afternoon peak load time.

Those who design rates say - NO. Peak loads are created by encouraging heavy users to operate at the same time. They are further encouraged to do so by discounting heavy use. A new rate design that discouraged heavy users to peak (by charging higher rates to them) would modify peak use. A current bill in the N.Y. Assembly would mandate the PSC to study this proposal.

Another correction would be to shift unused or surplus power through a grid to sites of peak drain. Senator Lee Metcalf has proposed a national grid for that purpose. In New York, we could buy surplus power from Canada, today.

Why have we not purchased wholesale power from Canada? If we did, Con Ed would have no justification for new capital investments and the loans they take to purchase it. Why do they want to take loans? Because banks, loans and interest are what Con Ed is all about.

The top eleven shareholders, the controlling holders, are the brokers and the banks. The Board of Directors are bankers and their extensions. (See Metromedia report on the Board attached to this paper.) Con Ed is being run efficiently for the oil and bank interests and it is useless to expect any changes in such a profitable system.

It is obvious that if we are ever to reverse these increases, reduce the reliance on oil or on uranium that the oil companies own, and to start planning in the public interest, the public will have to have control over their electric and gas utility.

The residents and businesses of Los Angeles, where the utility is publicly owned, pay half of what New Yorkers pay for electricity. According to the American Public Power Association, publicly owned utilities, like Los Angeles and Cleveland, charge 48.7% less per kwh on an average than those of privately owned utilities. Not only do they charge less but their customers use 33% more due to the higher efficiency of the publicly owned companies. The reason for this is more efficient management, lower salaries, cheaper financing and zero shareholder return. In some places lower taxes add to the savings. However, most publicly owned utilities pay larger contributions to local governments than were collected by taxes and in New York, Con Ed pays no federal taxes.

Lately, these arguments have convinced citizens in numerous towns and cities to reconsider their utility franchises. Virtually all of Vermont's localities have gone public, Massena, N.Y. recently changed and Buffalo is considering switching. In all instances, however, their decisions were based upon hard, detailed data on costs of purchase of equipment, lines, generator stations, salaries, and workers' benefits plus operating costs over ten years under their privately owned company versus a public administration. The savings under the latter was the deciding item. The data was the result of a "feasibility" study by a reputable engineering firm.

New York could have such a study made by that same firm to enable New Yorkers to have the same privilege as Massena residents. Robert Taylor, director of the Boston office of the R. W. Beck Co., the above cited firm, has quoted an estimated cost of such a study to be $100,000. The cost is somewhat higher in proportion due to the complications of record searching for New York as against Westchester County. The cost of the study would be small compared to the millions we are spending and will spend in the next few years.

We are lucky in that New York has a fairly simple political system for this action. According to the City Charter, home rule for utilities was granted to the City and changes in franchises are made by referendum, with the Mayor having full power to call for the referendum. Therefore, it is to the Mayor to whom we must look to initiate this study.

We propose, therefore, to approach the Mayor with this study request, citing it not only as a potential resource for revenues for the City but a decisive step in defending the City and its citizens.