

## News

### Why Do New Yorkers Pay Sky High Electric Rates?

[by Ilya Marritz](#)

NEW YORK, NY March 19, 2009 —HOST: New Yorkers pay some of the highest electric rates in the nation – 45 percent higher than the national average. Critics say there's something funny with the way electricity is bought and sold.

MCCULLOUGH: If you walked into the local grocery store and you found that a loaf of bread was \$1000, you'd have a pretty good sense that something was wrong with that grocery store.

HOST: That's energy analyst Robert McCullough. He's spotted what he says is the equivalent of a \$1000 loaf of bread in a study of New York's electric market. His findings are provoking fierce debate over who -- or what -- is to blame for New York's high electricity costs. We get more from WNYC's Ilya Marritz.

REPORTER: When Robert McCullough started looking through the data on New York's electricity auctions, he noticed something weird.

MCCULLOUGH: There are bids filed every day for \$1000 per megawatt hour. Given today's prices, that's fully 20 times the highest price you'd expect to see.

REPORTER: In other words, in most auctions, most power producers have been offering to sell electricity for \$30 or \$40 per megawatt. But one outlier power plant has been offering electricity with a price tag so big, it looks like a joke, every hour of every day, consistently.

MCCULLOUGH: He appears to never shut down.

REPORTER: Which is also unusual. McCullough, who testified before Congress about Enron's market manipulations, sees an obvious red flag. He says the oversized bid could be evidence of collusion by power companies, or maybe someone is trying to trick the computer that runs the auctions.

BRODSKY: People game the system, inevitably.

REPORTER: Assemblyman Richard Brodsky commissioned Robert McCullough's study. Brodsky says even if the details are a little hazy, it's clear what's going on: New York's electric auction house is cheating consumers.

BRODSKY: What we have is a nongovernmental, industry-controlled body that's setting prices. And the net result is the people of the state of New York are being ripped off to at least the tune of \$2 billion a year and probably more.

REPORTER: The body Brodsky is criticizing is the Independent System Operator. The name sounds technical. But you can think of it as an auction house for the spot, or short-term electricity market. About half of our electricity goes to these auctions on its way to your hair dryer or your BlackBerry.

The Independent System Operator concedes that electric bills are high, but they say the cost of gas and oil is the culprit. The ISO's Ira Freilicher.

FREILICHER: If you can factor out the cost of that fuel, the cost of electricity would actually have gone down, compared to where it would be under the old system.

REPORTER: Still, no one from the Independent System Operator is willing to give a definitive explanation for that \$1000 bid that Robert McCullough singled out.

One person who's seen the data and will explain it is David Patton. He is an economist hired by the ISO to audit the auctions. And he says there's a perfectly reasonable explanation which the critics are missing.

PATTON: It basically is power that can only be generated on an emergency basis.

REPORTER: Think of it like medivac helicopter: a very expensive, last resort option, that's always at the ready. Except with medivac, you can see who the pilot is.

REPORTER: Do you know who that bidder is? Are you privy to that information?

PATTON: Yes.

REPORTER: Who is it?

PATTON: (Laughter.) Unfortunately that information is confidential.

REPORTER: The ISO says it keeps bidders' identities secret to make the auctions fair. Critics say you can't know who's in the game.

This week, Senator Charles Schumer sent a letter to the federal regulators, asking for a probe into possible. Assemblyman Brodsky wants to restore state oversight that was removed in the late 1990s, and has introduced "Electric Power Re-Regulation Act".

BRODSKY: Deregulation was a mantra, it was chanted. And then we got this slow accretion of a rate structure. We're gonna change that.

REPORTER: This dispute between the ISO and its critics is more than just a matter of dollars and megawatts. The best way to deliver essential public goods at low cost is through competitive markets. Or you think there's a government hand.

Here's one measure of what wholesale electric auctions have done for New York:

Since 1996, the cost of running a refrigerator for an entire year has dropped \$26, adjusting for inflation. The most expensive electric market in the country, New York today ranks fourth. Make of that what you will.

For WNYC, I'm Ilya Marritz.

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