

The Effects of Closing Indian Point on Westchester Electric Rates

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The Business Council of Westchester



In conjunction with the New York Affordable Reliable Electricity Alliance



Introduction

Throughout the country, electricity bills have been steadily increasing to account for rising fuel costs, increased taxes, the retirement of aging plants, and even environmental costs. Currently, New York State has the country's second highest retail prices for electricity, behind only Hawaii, which as a group of islands possesses very limited in-state energy resources.¹

In the first six months of 2008, New York State's residential and commercial customers experienced between 54 and 56 percent higher electricity costs than the average U.S. residence or business.² The average retail price for New York State residential customers in July 2008 was 19.75 cents per kilowatt-hour (kWh), while the cost for commercial customers was slightly lower at 19.52 cents per kWh. The national average for residential customers was 10.83 cents per kWh; and for commercial customers was 10.91 cents per kWh.

Westchester County's electric rates are some of the highest in the state. On the supply side, the only base load power available in Westchester County is the Indian Point Energy Center. Regardless of conflicting views on Indian Point or nuclear power, the two nuclear reactors on the site meet over 40 percent of the peak demand of the Lower Hudson Valley region including Westchester County. Indian Point's Unit 2 and Unit 3 reactors also provide over 75 percent of the electric energy consumed within the region.³ In total, Indian Point safely generates slightly over 2,000 megawatts (MW) of electricity on a continual basis,⁴ enough to power two million average New York homes.

In addition to current energy needs fulfilled by Indian Point, the growth and revitalization of the regional economy will require new electric supply. The area serviced by Consolidated Edison (Con Ed) has reached unprecedented electric use levels in recent years. Between 1997 and 2007, electricity demand within Con Ed's service area increased a staggering 23 percent.⁵

Much of this growth is independent of commercial or industrial growth, reflecting the trend in the growth of residential demand due to the addition of new appliances and electronic devices. The number of households in the area with computers, flat screen televisions and central air conditioning, among other items, continues to increase, adding stress on the region's electric grid.

¹ U.S. Energy Information Administration. "Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State." October, 2008.

² Energy Information Administration, Monthly Energy Review October 2008. "Average Retail Prices of Electricity." http://www.eia.doe.gov/mer/pdf/pages/sec9_14.pdf

³ "An Assessment of Energy Needs in Westchester County: The Economic Impact of Rising Energy Prices and Shortages in Supplies." Dr. Howard J. Axelrod, Energy Strategies, Inc. January, 2008.

⁴ Barring scheduled or unscheduled maintenance days.

⁵ Con Edison Press Release, February 13, 2008. "Con Edison Launches EnergyNY to Heighten Awareness of Energy Needs and the Environment.

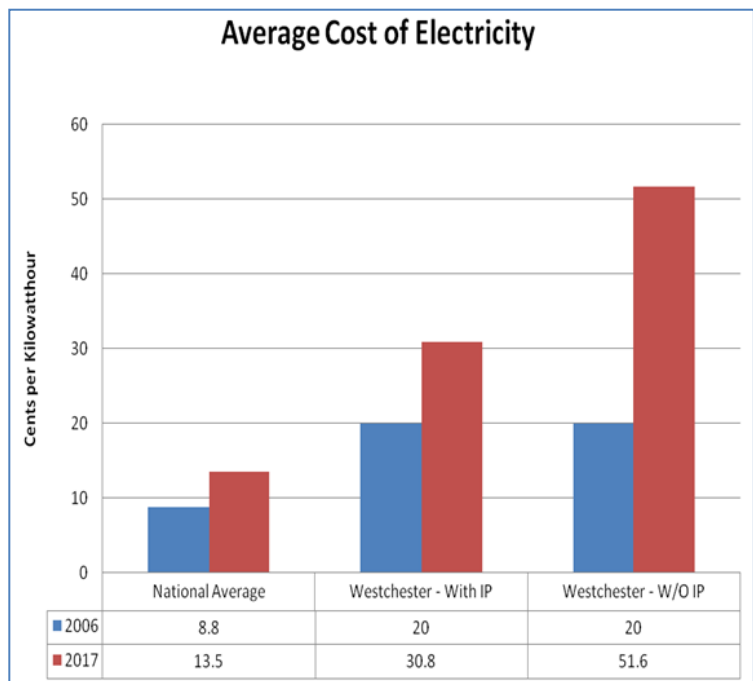
Generation Supply Gap

The New York Independent System Operator (NYISO) projected in its 2008 Comprehensive Reliability Plan that to address specific reliability needs within the state, “1,000 megawatts (MW) of new resources should be located in or available to serve New York City, 1,050 MW should be located in the lower Hudson Valley and 300 MW can be located anywhere in New York State.”⁶ If Indian Point Units 2 and 3 are shut down when their current licenses are set to expire in 2013 and 2015 respectively, a gap of approximately 3,050 MW would then exist in the lower Hudson Valley.

A gap of over 3,000 MW would consequently cripple lower Westchester’s economy and dramatically increase electric rates for the residential, commercial and industrial sectors, particularly since so much more power would have to be bought on the spot market, leading to higher prices and supply volatility. With electricity prices in Westchester already well over the national average, they could reach up to \$.50 per kilowatt-hour, over three times the national average by 2017.⁷

Sky-high electricity prices would force many business owners to close or relocate to less expensive areas of the state, or even out of state. Bringing new businesses and jobs to New York State thereafter would become increasingly difficult, given the more attractive costs of doing business in surrounding states.

According to a 2008 study by the Westchester Business Alliance⁸, the dramatic increase in electricity prices and decrease in reliability would result in “as many as 11,000 fewer jobs; \$2.1 billion in cumulative lost wages and nearly \$5.5 billion in cumulative lost economic output could result in higher energy costs.”⁹ Westchester County has already lost



Source: “An Assessment of Energy Needs in Westchester County: The Economic Impact of Rising Energy Prices and Shortages in Supplies.” Dr. Howard J. Axelrod, Energy Strategies, Inc. January, 2008.

⁶“NYISO Issues 2008 Comprehensive Reliability Plan: Market-based solutions address reliability of New York’s bulk electric grid through 2017”.

http://www.nyiso.com/public/webdocs/newsroom/press_releases/2008/NYISO_Issues_2008_Comprehensive_Reliability_Plan_071508.pdf

⁷ *An Assessment of Energy Needs in Westchester County: The Economic Impact of Rising Energy Prices and Shortages in Supplies*, page 11.

⁸ Members Include: Building and Realty Institute, Inc.; Construction Industry Council/Construction Advancement Institute, Inc.; The Business Council of Westchester; and Westchester County Board of Realtors, Inc.

⁹ *An Assessment of Energy Needs in Westchester County: The Economic Impact of Rising Energy Prices and Shortages in Supplies*, page 14.

thousands of jobs and economic output from the decline in energy-intensive manufacturing and other industrial companies which have left the region. The growth of less energy intensive commercial businesses has absorbed much of the economic costs. If Indian Point were to close and Westchester County's electric rates continue to increase, this would no longer be the case. Economic development and job creation in Westchester, the greatest indicators for prospects of continuing economic growth, would certainly suffer as a result.

In addition to the potential spike in retail prices, Westchester County would be forced to absorb the additional utility costs to villages, school districts and other taxpayer supported agencies, not to mention the loss in tax base from the discontinued operations of a major industrial taxpayer, i.e., Indian Point.

Through the New York Power Authority (NYPA), municipalities, fire departments and even the Metropolitan Transit Authority have often locked-in cheaper electricity prices than the average residential or business owner. If Indian Point is closed and its electricity production is lost, these costs will increase in the millions of dollars that will be passed on to taxpayers in the local communities.¹⁰

A Lack of Replacement Options

Additional base load power generation or replacement options for Indian Point are improbable and unattractive for both economic and environmental reasons. While Westchester County's location has economic benefits, it is a disadvantage for the development of energy generation, as potential siting locations for power plants are scarce, if they are available at all.

As reported in a June 2006 study by the National Academy of Sciences (NAS) titled "Alternatives to the Indian Point Energy Center for Meeting New York Electric Power Needs," combined cycle natural gas plants are the only practical replacement option that could offset the loss of Indian Point's power in the near-term. However, the construction of at least four to five combined cycle natural gas plants to replace Indian Point, would create nearly insurmountable siting and regulatory obstacles (a standard size combined cycle natural gas plant has a net capacity of 408 MW), as concluded by the NAS. Unlike nuclear energy, natural gas would also increase the region's greenhouse gas emissions, making it nearly impossible for reaching carbon emissions elimination targets as agreed to by New York State as a partner in the nine-state Regional Greenhouse Gas Initiative. Natural gas is also subject to severe price fluctuations.

Renewable options are also difficult to site and require significant amounts of land, especially the installation of wind turbines or photovoltaic panels. While these sources can play a role in meeting New York State's total energy supply and should be factored into a more diverse portfolio of power sources, they cannot serve as a viable replacement for base load power sources as they are intermittent in their production -- only when the sun shines or the wind blows.

¹⁰ *The Journal News*. "Indian Pt. discount on electricity to expire." November 18, 2008.

Conclusion

The Indian Point Energy Center provides safe, reliable, base load energy in an area where power supply is scarce and expensive. An independent safety evaluation panel concluded this summer that Indian Point is a safe plant that meets all U.S. Nuclear Regulatory Commission requirements, and plant safety systems are well maintained and reliable. Indian Point's performance compares favorably to high-performing plants in most aspects of nuclear safety.

As stated in the Westchester Business Alliance study, "Based on economic factors we have examined, Indian Point Units 2 and 3 are vital current and future electricity resources for Westchester County."¹¹

Without the continued operation of Indian Point, residents and businesses throughout Westchester would be faced with higher electric bills, reduced overall economic output and decreased job creation, and the potential for immense losses in current jobs. All of this would result in a worsening economic climate and a less attractive investment atmosphere for new businesses as our region seeks to grow past the current national financial crisis. Ultimately there is no denying the link between the cost of electricity and its role in the economic and growth for our region, as well as the part that Indian Point plays in this equation. We need Indian Point in Westchester for our ongoing prospects for economic growth and to ensure that this area remains a first class place to live and do business.

About the Authors: Dr. Marsha Gordon is President and CEO of The Business Council of Westchester and Paul Vitale serves as Vice President, Government and Community Relations. The Business Council of Westchester (www.westchesterny.org) is the county's largest and most influential business organization. It advocates for Westchester's business community at local, state, and federal levels by addressing a broad range of public affairs and area development, economic and business development issues. The Business Council of Westchester is a member of New York AREA. Dr. Gordon and Mr. Vitale also serve on New York AREA's Advisory Board.

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 125 business, labor, and community groups whose mission and purpose is to ensure that New York has an ample and reliable 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.

¹¹ *An Assessment of Energy Needs in Westchester County: The Economic Impact of Rising Energy Prices and Shortages in Supplies*, page 20.