

What is the Purchase Power Adjustment? (PPA)

Over the next few months when our electric costs are the highest, I believe it worth reminding customers what the PPA on their electric bill represents, the costs included, and its primary cause. To start the explanation, lets review the operating structure of the Municipal Commission. The Municipal Commission is a “Distribution Only” utility, meaning the Commission does not own any generation or transmission facilities. The Commission purchases power through long-term contracts and then distributes that power to its customers. There are currently two sources for this power: the New York Power Authority (NYPA) and the New York Municipal Power Agency (NYMPA) with National Grid and NYPA providing the necessary transmission services.

The supply contract with NYPA is for firm hydropower with a capacity (demand) of 12,937kW and associated energy of approximately 7,000,000kWh. It is through this contact that we receive the low cost power from Niagara Falls. The NYPA contract expires 2025 and is the basis for our reasonable retail rates. Any additional or incremental power needed is purchased through an open-ended contract with NYMPA. This power typically costs ten times more than the NYPA power delivered. It also includes charges from the New York Independent System Operator (NYISO) for the operation of the State’s Power Grid. It is the NYMPA power purchases and the NYISO’s charges, which have such a dramatic impact on your rates.

The final cost element is the Transmission Service Charge paid to National Grid. The fee is calculated on energy supplied to the Municipal Commission’s substation on West Street. The rate charged is approved by the Federal Regulatory Commission (FERC) and is billed based on all megawatt hours delivered.

On your Municipal Commission’s electric bill, there are the two lines directly related to power costs during the billing period. The first line is the customers recorded energy multiplied by the Commission’s Retail Tariff Rate. The second line is the recorded energy multiplied by the PPA. The Commission’s retail rates, approved by the NYS Public Service Commission, are designed to recover the estimated “Base Purchase Power Cost” and the required “Operating Revenues” necessary to support the Commission’s operations. The Commission’s operating expenses remain fairly constant. It is the power cost portion, which varies widely. To address this, the PPA line is included to collect those actual additional power costs which are above and beyond those collected thru the estimated “base purchased power cost” of the retail rate. These additional expenses may be power costs, transmission costs or in most cases, a combination of both.

In the paragraphs above, I have tried to give a detailed explanation of what the PPA is. A simpler explanation is: it is a surcharge levied to collect the actual costs of power purchased not accounted for or received by means of the retail tariff rates or stated

another way: it is the difference between the actual power cost and the estimated power cost of the tariff.

Next, we address the cause of the increase. There are three main contributors: the increase in the “Market Cost” of electricity, “Growth and Expansion” on the Municipal Commission’s system and “Electric Comfort Heating”. Of the three above, electric comfort heating has the most visible impact on rates. That is why we experience the highest cost for electricity during the winter heating season. During the past two years, the Municipal Commission has seen a huge increase in its electric heating load. This load includes the use of both supplemental and portable units and the installation of baseboard units to heat entire homes.

In a future article, we will discuss many of the issues relating to the conversion to electric heat and some possible future steps necessary to address their impact.