The energy generated by the Niagara Power Project in Lewiston should target high-tech, clean-tech industry, a study says.
File photo

Discount power programs criticized

Study says state needs to re-examine allocationsto 'legacy' firms, focus on economic development

By James Heaney
NEWS STAFF REPORTER
Updated: September 22, 2009, 7:24 AM /

New York doesn't get enough return for the half billion dollars in power discounts it provides companies across the state, and the program that provides dirt-cheap hydropower to some 130 industries in Western New York is particularly ineffective, a study being released today shows.

The study, by the Citizens Budget Commission, found fault with all nine discount power programs managed by the New York Power Authority and calls for their wholesale elimination in favor of an initiative managed by the Empire State Development Corp. that would target high-tech, clean-tech and other emerging industries.

The commission is a New York Citybased nonpartisan think tank. Its study concluded that the deals provided to the industrial customers of hydropower plants in Lewiston and Massena are "particularly troublesome." Many of the deals date to the 1960s.

"Western New York needs economic development programs that work and are going to generate the biggest return. These legacy arrangements aren't doing the job," said Elizabeth Lynam, the commission's deputy research director.

"Some of these legacy firms may be deserving, but they need to be re-examined. They just shouldn't be receiving power because they always have," she said.

Discounts for other programs offered by the state range from $247 to $630 per job per year. For the hydro programs, the cost ranges from $5,836 to $7,883 annually per job.

A look at the major recipients of low-cost hydropower customers in Erie and Niagara counties further drove home the point.

Statewide, the authority allocated on average 4.4 kilowatts of power for every job created or preserved. But the allocation for Olin Corp. in Niagara Falls works out to 497 kilowatts per job. The allocation is 244 per kilowatt per job for BOC Gases in Buffalo and 202 for Occidental Chemical in Niagara Falls.

"The legacy arrangements in the Replacement, Expansion and Preservation Power programs are particularly troubling," the study said. "They provide generous benefits to a small number of firms."

Indeed, the study found that the Power Authority's allocation of discounted hydropower has created a handful of "haves" and many more "have nots" among manufacturers in Western New York. The study said 92 percent of local manufacturers do not receive power subsidies and "struggle to be competitive without a NYPA subsidy."

The Citizens Budget Commission study is being released at a time when the legislation that established many of the programs is sunsetting and many of the contracts with companies for discounted power, including industries in Western New York, are due to expire over the next five years.

Four programs involve the sale of discounted hydropower to industry located primarily near the Lewiston and Massena plants. The other five programs involve the authority buying electricity on the open market and then selling it at a discount to businesses and, to a lesser extent, nonprofits, many of them located downstate.

The discounts cost the authority $479 million to $640 million a year — primarily by selling hydropower to industry at a discount rather than hawking it at market rates.

The Budget Commission questioned the state's emphasis on using the nine programs to provide discounted power to manufacturers, given its diminished role in the economy. Manufacturing accounts for only 6 percent of jobs statewide, down from 20 percent in 1980, but receives 61 percent of discounted power, including almost all of the hydroelectricity sold with the deepest discounts.

"There is no clear justification for using so much of the subsidy to support manufacturing concerns," the study said.

The Budget Commission found three basic problems with the state's use of discounted power:

• The programs are not aligned with other economic development strategies and thus represent a "wasted opportunity."

• The programs also are not connected to state goals to reduce energy consumption by 15 percent by 2015. Among other things, the study noted that some programs discourage companies from reducing their energy consumption.

• The authority's management of the programs mask their costs by failing to make important information available to the public.

"NYPA's economic development programs are not transparent," the study concluded.

To reform the programs, the study recommends that some power be allocated to companies and businesses, and the balance sold at market rates. A portion of the proceeds would be used to provide grants to targeted companies.

The study recommended the state target companies with high energy costs that provide good-paying jobs, primarily in the "high tech, clean tech and other high value added industries."

Another option for using the proceeds: invest them in upgrading the state's energy infrastructure.

jheaney@buffnews.com