



What is the Fuel Adjustment Clause and Why is it on my Bill?

What is the Fuel Adjustment?

Fuel Adjustment Clause or FAC is the method in which Freeport Electric accounts for fluctuations in the cost of energy without having to change our base rates. The term FAC is a little misleading because many factors other than fuel are considered when calculating the value each month. Many utilities use the term purchased power adjustment clause or PPAC because it addresses the multitude of cost associated with producing the electricity and getting it delivered to our location. They are pretty much interchangeable, but do not reflect the cost of gasoline in we put in our trucks. Even though gasoline prices have come down, the overall price of natural gas and hydro-electric has increased.

How long has Freeport had the FAC on our bills?

The FAC line has been on all Freeport Electric bills since the early 1970's

How is the FAC rate calculated?

The FAC is calculated the beginning of each month, and must be submitted to the Department of Public Service (DPS) for approval 3 business days before it can be billed. Without DPS approval, we cannot send out bills. It is calculated every month based on the actual costs from the prior month and is spread out based on the anticipated kWh sales for the current month. For example: to calculate the August FAC we would take our total energy expenses for the month of July and divide by what we think our sales will be for August and come up with a rate to charge our customers. If the weather or some other factor causes our sales to increase or decrease we will over or under collect and have to make an adjustment the following month.

Does every utility calculate the FAC the same way?

Yes and No, we all use the same basic calculation and most New York utilities use a formula approved by DPS. Some do it annually, others do quarterly. Freeport calculates ours monthly, this is the most transparent and means the charges most accurately reflect the actual cost for the actual period. There is very little chance of over or under collecting. It does however lead to the wide fluctuations in monthly charges. We often hear about other Utilities over charging their customers. This is often the result of not recalculating the FAC on a regular basis.

How is the FAC applied?

The FAC is applied as a rate/kWh. Every customer pays the same rate per kWh, the total amount of the charge on your bill depends on how much consumption you have during the billing period. For example: If the FAC for a particular month is 1 ½ cents per kWh a customer using 500kWh would be charged \$7.50 for the period. While a customer using 1500 kWh would be charged \$22.50.

Does Freeport profit from the FAC?

No, The FAC reflects the actual cost of energy. These costs are passed on directly to the customer but Freeport does not profit from them. Alternatively, when costs are very low customers will see a credit on their bills.

But I thought we get most of our power from Niagara Falls?

This is true. About 85% of our power comes from Niagara Falls and is purchased at a fixed rate. However, the cost associated with getting that energy to us fluctuates with demand and the paths available, the term congestion charges is used to account for this. To get power from Niagara Falls to Freeport we use lines owned by LIPA, CON ED, NYPA, NYSEG, Niagara Mohawk, Orange and Rockland, Central Hudson and many others. Each one gets paid based on how much power is transferred.

What are congestion charges?

Just like there are only 2 bridges connecting Long Island to the rest of the state there are only a few cables bringing in electricity on hot humid days these cables are operating at peak capacity and demand is high. Along with higher demand comes higher costs. If a cable goes out of service costs can skyrocket and we either have to pay the increased rates or we can't get the power we need to keep the lights on.

What about the new power plant?

The new power plant is now almost 20 years old. Freeport owns one of the 2 generators at the Buffalo Ave. location. The other is owned by an independent company that leases the land from the Village of Freeport and sells the power on the open market, they help Freeport save money by sharing many of the common expenses. Our generator continues to save our customers a tremendous amount of money. Any profits from the sale of energy are used to reduce the monthly FAC.

Freeport's rates are higher than LIPA's!

This is just not true, every month we compare the rates of several local utilities. Freeport is always between 30% and 40% less than LIPA. Even with our high September FAC we were still 30% less. The comparison is posted monthly on our website

http://www.freeportelectric.com/Rates/Bill_Comparison.html

Some Key points:

Freeport Electric has a team of people dedicated to keeping our energy costs as low as possible. We recognize that the FAC value can fluctuate widely from month to month. We are working with the Department of Public Service to find a solution to stabilize this, but for now we are mandated to use the formula prescribed by our tariff.

It is important to keep in mind that even during months with a higher than average FAC our bills are still 30% lower than LIPA.

This is a comparison of energy costs for August 2012

