January 28, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

SUBJECT: Decrease in New York City Governmental Customer Fixed Cost Component – Notice of Adoption

SUMMARY

The Trustees are requested to take final action to approve a decrease in the Fixed Cost component of the production rates by $15.1 million or 9.9%, not including Astoria Energy II ("AE II") plant expenses, to be charged in 2014 to the New York City Governmental Customers ("Customers" or "NYCGC"). The decrease would be effective with the January 2014 bills.

BACKGROUND

At their September 24, 2013 meeting, the Trustees directed the publication in the *New York State Register* ("*State Register*") of a notice that the Authority proposed to decrease the Fixed Costs component of the production rates by 5.3% to be charged in 2014 to the Customers. The *State Register* notice was published on October 16, 2013 in accordance with the State Administrative Procedure Act ("SAPA"). The public comment period was due to expire on December 2, 2013, but was extended by NYPA by written notice to the Customers through December 20, 2013. The City of New York ("City") is the only one of the eleven NYCGC who filed formal written comments.

As indicated in the September 24, 2013 memorandum to the Trustees, under the Customers' Long-Term Agreements ("LTAs"), the Authority must establish Fixed Costs based on Cost-of-Service ("COS") principles and may make changes only under a SAPA proceeding with the approval of the Trustees. As the memorandum also indicated, the LTAs establish two distinct cost categories: Fixed Costs and Variable Costs. Fixed Costs, which represent approximately 17.5% of the total production cost-of-service, include Operation and Maintenance ("O&M"), Shared Services, Capital Cost, Other Expenses (i.e., certain directly assignable costs) and a credit for investment and other income. Variable Costs, representing the remaining 82.5% of the total production costs, include items such as fuel, purchased power, transmission costs, etc.

DISCUSSION

Based on Customer comments received and staff's analysis, the final decrease in Fixed Costs sought by this action is $15.1 million. This represents a $7 million decrease from the proposed Fixed Costs estimate discussed at the September 24, 2013 Trustee meeting. Under the LTAs, Customers' concerns must be considered in a confidential process prior to presenting any proposed changes to the Fixed Costs to the Trustees or issuing them for public comment. In 2013, numerous Customer data requests were presented to staff, and in all cases, responses to relevant questions were provided to the Customers.

As part of the SAPA process, the City submitted formal written comments to NYPA. The City's comments in its entirety are attached as Exhibit "A." In their comments, the City is of the opinion that while progress was made in 2013 and additional steps have been taken to moderate energy rates charged by NYPA to the City in 2014, more effort is needed. Below is staff's analysis and recommendations addressing the public comments received on the Fixed Costs proposal.

1. Staff Analysis of Public Comments on Fixed Costs and Recommendations

First, staff provides a review of the recently concluded annual process with the Customers that lead to the proposed 2014 Fixed Costs and the Final 2014 COS. Second, staff provides its analysis and recommendations regarding six issues raised by the City in their comments filed on December 20, 2013.

Staff Review of 2014 LTA Annual Process: During this cycle of the LTA annual process, NYPA staff has provided the Customers with abundant verifying information via the issuance of a comprehensive Preliminary 2014 COS and its accompanying, explanative, staff report and by responding to numerous data requests made during the discovery process.

After distribution of the Preliminary 2014 COS on May 23, 2013, the City and the Metropolitan Transportation Authority ("MTA") submitted numerous discovery requests. There were 38 discovery requests put forth by the City, many of which contained multiple parts resulting in a total of 69 responses and analysis being provided to the City. The MTA submitted 14 data requests which were all responded to. Responses and analyses were provided to the Customers throughout July and August 2013.

In addition to the formal data discovery, NYPA staff conducted conference calls with the NYCGCs and their consultants on various COS issues. On August 19, 2013, pursuant to the terms of the LTA, NYPA and the NYCGCs teleconferenced on Fixed Costs. Particular focus was placed on the O&M and Shared Services expenses with the NYCGCs voicing concerns over the level of Fixed Costs, the payback period of certain non-recurring costs, and the amortization of certain debt service expenditures. As a result of the August 19, 2013 teleconference, a total of 11 areas of interest were identified as requiring additional information. On October 7, 2013, NYPA provided information relating to 8 of those 11 areas of interest, with the remaining three items addressed either during the development of the Final COS or via response to the Customers formal comments received on December 20, 2013, contained herein.

An updated 2014 COS was sent to the Customers on December 6, 2013 and was followed up with details sent on December 12, 2013 concerning the O&M Expenses and Shared Services Expenses that were incorporated in the Fixed Costs. In response, the City and the MTA submitted additional discovery requests. These discovery requests were responded to on December 18, 2013.

The following is a summary of the NYCGCs comments filed under SAPA proceedings and NYPA's responses.

Issue 1: Blenheim-Gilboa Pumped Storage Facility Costs

Comments: The City proposes that the Board direct NYPA to change the effective rate at which NYCGCs are charged for capacity, stating that the effective rate charged should never be higher than the market price of capacity.

Staff Analysis: The LTA incorporates cost recovery of NYPA's generation portfolio as well as other economic assets that NYPA possesses in the New York Independent System Operator ("NYISO") marketplace, such as Transmission Congestion Contracts. With its generation and transmission portfolio, NYPA serves the Customers through competitive costs and rates, while also providing notable environmental benefits.

Production rate savings for the Customers have annually been realized at 20% to 30% less than what the Customers would pay for similar Con Edison service. In dollar terms these savings are estimated to range from $200 million to nearly $400 million annually, during the 2010 – 2012 period.

It is NYPA's entire portfolio as defined and agreed to in the LTA, not individual generation facilities or types, which engender a total lower cost than what competitors can offer. Individual assets within a portfolio may not be competitive every single year when compared to the NYISO marketplace, which has been the case with Blenheim-Gilboa Project ("B-G Project") during low-price capacity years. However, NYPA believes the City is incorrect in its interpretation of the B-G Project's economics in their comments to the Trustees. They failed to note the substantial positive economic benefits that the B-G Project actually provided in 2013, as well as the significant economic benefits embedded in the 2014 production rates.

The City advertises in their Table 3, "Blenheim Costs and Revenues", Column 4, that they are absorbing significant costs above market. However, Column 4 ("Net Cost/Revenues") is mis-titled and as a result, misleading. All Column 4 calculates are the net effect of B-G energy sales and ancillary services sales assigned to the Customers as compared to the fixed expenses. What it fails to take into account, and which would produce a valid net cost figure, is that by purchasing B-G capacity the Customers receive 250 MW of capacity that they need not purchase in the NYISO capacity market. Once the opportunity value of the 250 MW is built into the equation there are years, specifically 2007 and 2008, in which the Customers received net benefits of about $1 million per year. Granted, there are years where there are net costs, but the average annual cost is about $2.2 million, not the $7.0 million to $9.5 million per year as shown by the City. Also, the City has omitted from its comments the sizable net benefits the Blenheim-Gilboa arrangement has afforded them during the 2013 rate year, approximately $5.5 million, and the projected $7 million benefit that is built into the 2014 rates.

Recommendation: The Blenheim-Gilboa Project energy, ancillary services and capacity services are all part of the overall NYPA generation and transmission portfolio that serves the

NYCGC. This portfolio has brought about substantial savings to the Customers over the course of the LTA's existence. The application of the assignment of fixed expenses offset by energy, ancillary services revenues and capacity benefits has remained consistent throughout the LTA contract term and is exactly the same treatment as NYPA applies to its other B-G Project contractual customer and it is also the way that NYPA accounts for the remainder of the un-contracted portion of the B-G Project's output that NYPA takes for its own account. This approach results in years with positive net revenues, while in other years revenue is negative. Given that NYPA is providing service to the Customers on a portfolio approach and that there has been steadfast non-discriminatory consistency in the application of the B-G Project products, staff sees no reason to change methodology at this time.

Issue 2: Operations and Maintenance Expenses

Comments: The City recognizes the efforts that the Authority has taken, to date, to reduce the Fixed Costs for 2014. However, the City feels additional reductions should be made. The City raised concerns regarding the level of O&M Expenses in the 2014 COS. The City states that the O&M Expenses are increasing by $3.9 million, or 11.5 percent, and argues that although this increase may not seem large in comparison to the entire Fixed Costs, the O&M Expenses increase has not been justified by the Authority and the City's concerns should not be ignored.

Staff Analysis: Staff notes that the $3.9 million increase in O&M cited by the City comes directly from the updated 2014 COS study sent to the Customers on December 6, 2013. NYPA provided substantive back-up and explanation for the O&M activities that are anticipated to take place in 2014. The provided cost data was a more detailed version of the budget figures presented to the Trustees during the 2014 budget briefings and subsequently approved by the Trustees at their December 2013 meeting.

A main factor in the increased O&M Expenses are activities of a non-recurring nature; activities that are of immediate necessity to keep NYPA assets operating reliably and efficiently. While staff did not have an exact dollar amount for those non-recurring activities until near the end of the budget process, it did provide the Customers during the summer of 2013 with a fairly detailed listing of what non-recurring activities were expected to be undertaken and why they were important. NYPA also provided estimated costs that turned out to be remarkably close to the approved budget.

Each year NYPA's Operations Business Unit rigorously justifies during the budget process the levels of O&M spending needed to keep its generators operating at a high availability standard and in a safe and reliable manner. The Trustees are the final arbiters of these annual spending levels and their necessity.

Comments: The City further contends that there is no basis to determine whether the proposed costs associated with the small hydroelectric facilities ("small hydros") are reasonable, particularly the rebuilding of Jarvis Unit #2, at a projected cost of $339,400, and Jarvis Unit #1 at a similar cost. The City raises concerns that it appears as if NYPA conducted no analysis to determine whether rebuilding either Jarvis Unit would be cost-beneficial to the NYCGC. The City requests that prior to the approval of rebuilding either Jarvis Unit, the Board require NYPA to provide a cost-benefit analysis to the NYCGCs. Additionally, the City denies that the rebuilding of a turbine is a routine maintenance item but is rather a major capital investment in the plant, and, as such, these costs should be amortized over time. The City expresses its continuing concern that capital investments should be distinguished from O&M Expenses and recovered over the life of the equipment as this is a standard practice in the utility industry.

Staff Analysis: Similar to the Blenheim-Gilboa Project the Small Hydro Projects (which are comprised of the Ashokan, Crescent-Vischer Ferry and Jarvis facilities) are part of NYPA's contractually defined generation portfolio that serves the Customers. While the Small Hydro Projects are not presently individually profitable, the larger LTA-defined NYPA asset portfolio has provided considerable and consistent savings to the Customers.

As part of the portfolio, it is NYPA's Operations Business Unit's responsibility to maintain these facilities in working condition. The Jarvis #2 turbine failed in July 2012 and will return to service during 2014. As a result of lessons learned from this failure, improvements must be made to the Jarvis #1 turbine in order to forestall possible failure. Most of the Jarvis #1 work will take place in 2015 with the 2014 costs budget at only $15,000.

The work that must be done on these turbines are non-recurring O&M by nature and cannot be claimed to be capital work as put forth by the City. NYPA follows standard accounting and utility practice when determining whether an expenditure is a "capital" or "maintenance" expense.

Comments: The City raises concerns regarding NYPA's use of consultants, the services these consultants are allegedly providing, how the sharing percentages were determined, and why maintenance work cannot be performed by NYPA employees.

Staff Analysis: NYPA is a utility with various plant configurations, equipment and systems. Because of the regulatory and governmental environment in which NYPA operates, there will always be a need for some outside technical support and expertise. As a rule, consultants are employed for specialized tasks that require skills that are not available or limited within NYPA; to accomplish special short-term or emerging tasks thus avoiding the need to hire personnel to meet a varied and inconsistent workload; or when an independent review/analysis is mandated or prudent

Staff has responded to data requests concerning consultant costs in the COS. In the Authority's most recent response, staff detailed the 2014 consultant support for the Small Hydro Facilities. There was a previous concern over consultant support for SENY and the AE II plant. The SENY consultant costs total one hundred and ninety thousand dollars, and the AE II costs are a mere twenty-seven thousand dollars. For AE II, the cost represents a share of fuel and hedging consultants that provide specialized analyses and services in support of these functions. The SENY consultants are associated with NYPA's hedging and risk functions.

Hedging consultants provide assistance and verification in the area of hedge effectiveness and portfolio management. This includes support for required testing, the approved hedge strategy that requires programmatic monthly hedges, the hedge simulator as to swaps, options and swaption instruments and in managing risk with a monitor-and-respond strategy.

Risk consultants provide expertise in the areas of credit, enterprise risk, the commodity risk system and independent validation of fair valuation. The credit consultants assist in reviewing the financial quality of NYPA's counterparties to hedge transactions to establish prudent credit lines with those counterparties as well as affording protection against the financial consequences of counterparty financial default.

As for fuel consultants, they provide needed expertise in emerging issues such as analyses that may be required to assess the economic impact of natural gas infrastructure developments on an interstate and local level.

Comments: The City also expresses concerns regarding the lack of information provided, giving the City no basis to determine whether the proposed costs are reasonable or appropriate, specifically the allocator percentages used for Shared Services Expense and NYPA's proposal to add a new line item to the COS and separate out charges for AEII Direct Support and Shared Services. The City requests that the Board require NYPA to provide more detailed explanations and justifications in regards to the costs and their allocations to the Customers.

Staff Analysis: As provided in past rate actions, the Customers received data explaining how Shared Services Expenses are functionalized and then allocated to NYPA's cost centers including those cost centers that are included in the Customers' cost service calculation and the rate development. The Customers received explanation about the AEII Direct Support Expenses through data requests responded to during the early summer of 2013; they received specific guidance on the AEII Shared Expenses through responses provided on October 7, 2013; and the Customers received a full exposition on December 12, 2013 on the calculation of labor ratios (*i.e., the allocator used for the cost center dispersion of the Shared Services Expenses*) for all NYPA cost centers based on the budget that the Trustees would ultimately approve at their December 2013 meeting. Included in the data provided were the derivation of labor ratios that serve the NYCGCs: the 500 MW Project; AEII Project; Small Hydro Projects, and SENY (which consists of headquarters personnel whose labor time is dedicated to the administration of the LTA).

NYPA's utilization of labor ratios for the functionalization of costs (i.e., generation versus transmission) is a standard utility practice and one mandated by the Federal Energy Regulatory Commission. The use of labor ratios to allocate Shared Services Expenses amongst NYPA's generation projects results from a series of court cases brought against NYPA by its hydropower customers during the 1980s and 1990s. The dispositive case requiring that labor costs be the allocation factor was *Village of Bergen v. Power Auth. of State of N.Y.,* 249 A.D.2d 902 (4th Dep't 1998), *appeal den'd*, 97 N.Y.2d 606 (2001). The Authority has been using this labor ratio approach for the allocation of its Shared Services Expenses for rate development purposes and for financial reporting purposes for over a decade.

Recommendation: Based on the recently completed 2014 budget approved by the Trustees, staff recommends that the O&M Expenses and Shared Services Expenses be further reduced by $1.1 million and $2.1 million, respectively, from the levels included in the Fixed Costs acted upon by the Trustees at their September 24, 2013 meeting.

In reviewing consultant costs, staff uncovered that the 2014 budget for the Government Customer Load Research Study was included in the Shared Services. Pursuant to a previously-agreed arrangement, these expenses will be recovered in a future COS cost based upon actual expenditures incurred. As a result, a seventy-five thousand dollar reduction is recommended.

Staff has made considerable efforts over the recent years to further the Customers understanding of how their allocation of Shared Services Expenses is determined. In an effort to provide a clearer understanding of the allocation methodology and why it is used, staff recommends that it conduct a seminar with the Customers at some point prior to the initiation of the 2015 COS cycle.

Issue 3: 500 MW Unit's Fixed Rate Debt Service Expense

Comments: The City requests that the Board extend the recovery period for the fixed rate debt service expense to no less than 30 years, similar to last year's extension of the variable debt service expenses, to enhance the economics of the 500 MW unit.

Staff Analysis: At this time, NYPA bears a certain amount of risk on these bonds since they currently mature in 2021-2025, which is well past the expiration of the LTA in 2017. The Customers are asking NYPA to further defer recovery of a significant amount of current actual debt service payments until after the expiration of the current LTA, thereby causing the Authority to take on even greater risk each year until the expiration of the LTA

Recommendation: Staff recommends no change in the 500 MW Project's fixed debt payment recovery amount.

Issue 4: Variable Debt Rates

Comments: The City states the interest rates charged to the NYCGCs by NYPA is "unjust" and "capricious." The City provided two tables as comparison, Variable Debt Interest Rates ("Table 1") as they appeared in the 2014 COS and NYPA's Variable Debt Interest Rates ("Table 2") as they appeared in NYPA's financial statements. The City requests that the Board direct NYPA to recalculate and reduce the variable rate debt expenses included in the COS as these should be consistent with NYPA's actual borrowing costs.

Staff Analysis: The Variable Debt Interest Rates included in the COS were established based on forecasted market rates, including costs for liquidity and remarketing of the debt, at the time NYPA and the NYCGC's executed the LTA in 2005. As the debt service on the Variable Rate Debt is considered a component of Fixed Costs in the LTA, NYPA considered the Variable Debt Interest Rates to be locked in over the life of the LTA. NYPA recognized at the time, that future interest rates could be higher than those included in the COS and was willing to assume that risk. Likewise, if future rates were lower, the risk would be assumed by the NYCGCs. The rates established in 2005 have been included in each COS accepted by the NYCGCs since 2005 through 2013, without question.

It should also be noted that the rates the NYCGCs show as being included in NYPA's financial statements do not reflect the cost of liquidity (65 basis points) or remarketing (5 to 11.5 basis points) costs for the debt, or reflect that the Tax Exempt Commercial Paper Notes associated with the Small Hydro Projects were swapped to a fixed rate of 5.123%.

Recommendation: Staff recommends no change in the Variable Debt Interest Rate.

Issue 5: Poletti Decommissioning Costs

Comments: The City expresses concern regarding the Poletti decommissioning costs, stating that NYPA provided no explanation for the cost increase of $400,000 between August and October 2013. The City requests that the Board require NYPA to produce a detailed and itemized list of all of the Poletti decommissioning costs, with references to supporting documents that justify each line item.

Staff Analysis: The limited dollar movement within the decommissioning budget is not unexpected as the effort proceeds from the planning stage to the actual decommissioning work. Nor is a slight movement within the planned work activities that surprising. The City mentions the $400,000 change, but what is not mentioned is that this amount needs to be measured in context to the $47 million decommissioning budget. The change is less than 1%.

The Customers take umbrage that the Poletti Project has been closed for nearly four years and they are paying decommissioning costs. However, the Poletti Project was solely dedicated to the service of Customers for nearly three and half decades and the Customers are responsible for its decommissioning costs. The Customers have not yet fully funded the estimated costs of the decommissioning project. Due to actual bids received in 2012 for the decommissioning work, NYPA lowered the annual charge for decommissioning cost recovery from $3.9 million to $1.8 million in the 2013 rates and will recover that same amount through the 2014 rates. Upon the completion of the project, the annual recovery charge will be trued up or down in order to guarantee that the customer pays no more than the actual decommissioning costs.

Recommendation: Upon the completion of the Poletti Plant's decommissioning, the Authority will provide a detailed itemized list and supporting documents, except those, if any, subject to confidentiality agreements with the contractors.

Issue 6: Decommissioning Cost and Corresponding Annual Asset Retirement for 500 MW Unit

Comments: The City requests that the Board reverse the increase in decommissioning costs related to the 500 MW unit, further reduce the cost estimate, and concomitantly reduce the annual asset retirement charge. Further, the City expresses that the decommissioning costs should be proportioned over the period rather than over collected in early years with a possible refund at the end, as there is no certainty that the NYCGCs will still be NYPA customers when the 500 MW unit is retired.

Staff Analysis: During this COS cycle, the Customer requested an updated estimate of the potential decommissioning costs of the 500 MW Project. NYPA's Cost Estimation engineering group, which has decades of valuation experience with NYPA generation and transmission assets, undertook and fulfilled the request. Their analysis determined that the 2013 potential decommissioning costs, absent salvage value, would be $63.7 million in 2013 dollars. Contrary to the City's assertion that this is an increase in the decommissioning costs of the 500 MW Project, it actually represents a significant decrease in the decommissioning estimate previously used to determine the Customer's annual recovery payment. The previous decommissioning estimate was $93.8 million in 2013 dollars, thus the new estimate is roughly $30 million less than previously determined.

Recommendation: Taking into account the lowered decommissioning estimate and that the Customers need to be given a deduction for paying a higher annual cost recovery for the first nine years (2004-2013) of the 500 MW operation, NYPA will lower the annual recovery amount to $2.2 million in the 2014 cost of service versus the previous annual cost recovery charge of $3.7 million. Given the inherent volatility in materials and labor prices that can take place over a 30-year horizon, staff agrees with the City's suggestion that periodic reviews of the decommissioning estimate occur. NYPA will review the decommissioning estimates on a three-year cycle. The Customers, however, should be aware that this could be a double-edged sword as such periodic review might increase the annual payment in the future years, if market conditions for material and labor have tightened.

The 500 MW Project has approximately 20 years of service life remaining. Given the volatility of material and labor costs that can take place over long-time horizons, it makes more sense to do the decommissioning study closer to the end of the project's service life. An internal periodic review by NYPA as proposed will suffice until the final stages of the 500 MW Project's operation.

2. Final Recommendation on 2014 Fixed Costs

Based on Customer comments received and further staff analysis, staff recommends that the Fixed Cost decrease be greater than that proposed in the Notice of Proposed Rulemaking that was noticed in the *State Register* pursuant to Trustees direction at their September 24, 2013 meeting. This is a $7.0 million decrease from the costs appearing in the October 16, 2013 SAPA notice with O&M Expenses decreasing by $1.1 million, Shared Service Expenses decreasing $2.1 million, and Other Expenses (Decommissioning and OPEB) decreasing by $3.9 million. Overall, the Fixed Costs for 2014 would decrease by $15.1 million from the 2013 COS to $138.3 million. The lower Fixed Costs will be reflected in the production rates effective with the January 2014 bills.

Description of Final 2014 COS and Customer Rates

Because the Variable Costs component (i.e., fuel and purchased power, risk management, New York Independent System Operator ("NYISO") ancillary services and

O&M reserve, less a credit for NYISO revenues from Customer-dedicated generation) is developed in collaboration with the Customers in accordance with the provisions of the LTAs previously approved by the Trustees, staff is not requesting the Trustees' approval of the Variable Costs component of the production rates for 2014. Additionally, the Authority passes through all Variable Costs to the Customers by way of the "Energy Charge Adjustment ("ECA") with Hedging" cost-recovery mechanism that the Customers collectively selected for 2014. This cost-recovery mechanism offered under the LTA employs a monthly charge or credit that reflects the difference between the projected Variable Costs of electricity (i.e., the Variable Costs recovered under the Customers' tariffs) and the monthly actual Variable Costs incurred by the Authority to serve the Customers.

For the Trustees' information, the projected Variable Costs are expected to decrease 1.1% from 2013 levels, and, in combination with the recommended Fixed Costs decrease and AEII costs, results in a final projected 2014 COS of $790.4 million. At existing rates, revenues of $807.2 million would be produced, resulting in an over recovery of $16.8 million. As a result, staff is recommending that rates be revised downward by 2.1%. The current 2013 Customer rates and recommended 2014 Customer rates with the overall 2.1% decrease are shown in Exhibit "B."

FISCAL INFOMATION

The adoption of the Fixed Costs decrease would result in an estimated $15.1 million reduction in revenues to the Authority, which is offset by the forecasted reduction in costs. The Energy Charge Adjustment mechanism will protect NYPA from the effects of movements in Variable Costs above those projected.

RECOMMENDATION

The Director – Market Analysis and Administration, recommends that the Trustees authorize the Corporate Secretary to file a Notice of Adoption with the New York State Department of State for publication in the *New York State Register* for a decrease in Fixed Costs applicable to the New York City Governmental Customers under the Long-Term Agreements.

It is also recommended that the Corporate Secretary be authorized to publish a Notice of Adoption, consistent with the discussion herein, in the State Register.

The Trustees are also requested to authorize the Senior Vice President – Economic Development and Energy Efficiency, or his designee, to issue written notice of adoption and the revised tariff leaves, as necessary, to the affected customers.

For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

Gil C. Quiniones
President and Chief Executive Officer

Att.
NOA – NYC (Decrease)

R E S O L U T I O N

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency or his designee be, and hereby is, authorized to issue written notice of this final action by the Trustees to the affected customers; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file such notices as may be required with the New York State Department of State for publication in the *New York State Register* and to submit such other notice as may be required by statute or regulation concerning the rate decrease; and be it further

RESOLVED, That the Chairman, the Vice Chair, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

Decrease in New York City Governmental Customer Fixed Cost Component – Notice of Adoption

Exhibit "A"
Customer Comments

COUCH WHITE
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December 20, 2013

VIA E-MAIL AND OVERNIGHT DELIVERY

Ms. Karen Delince
Corporate Secretary
New York Power Authority
123 Main Street, 11-P
White Plains, New York 10601

Re: SAPA No. PAS-42-13-00007-P – Rates for the Sale of Power and Energy

Dear Ms. Delince:

Enclosed please find the Comments of the City of New York on the New York Power Authority's proposal to decrease the Fixed Costs component of the production rates for its New York City Governmental Customers for 2014. These comments are submitted in response to the notice published in the State Register on October 16, 2013.

We note that NYPA provided some additional information to the City on December 18, 2013. Given the timing, the City only has briefly reviewed the information but has determined that the information provided does not resolve concerns raised in the comments. We note that this problem further demonstrates the need for modifications to the fixed cost review and comment process.

If you have any questions regarding these comments, please feel free to contact me.

Sincerely,

COUCH WHITE, LLP

Kevin M. Lang slg

Kevin M. Lang

KML:slg
Enclosure (via e-mail and U.S. Mail)
cc: Hon. Edna Wells Handy, Commissioner, DCAS
Mr. Mitch Gipson, First Deputy Commissioner, DCAS
Ms. Sally Renfro, Chief of Staff, DCAS
Ms. Kristin Barbato, Deputy Commissioner and Chief Energy Management Officer, DCAS Energy Management

Ms. Susan Cohen, Assistant Commissioner, DCAS Energy Management
Dr. Sergej Mahnovski, Director, NYC Office of Long Term Planning and Sustainability
Gail Rubin, Esq., Chief, Affirmative Litigation, NYC Law Department
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POWER AUTHORITY
OF THE STATE OF NEW YORK

Rates for the Sale of Power and Energy **SAPA No. PAS-42-13-00007-P**

COMMENTS OF THE CITY OF NEW YORK

December 20, 2013

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PRELIMINARY STATEMENT

While some progress was made in 2013, and additional steps have been taken for 2014, to moderate the energy rates charged by the New York Power Authority ("NYPA") to the City of New York, ("City"), more effort is needed. NYPA's financial health is tied to the Long Term Agreements ("LTA") between it and the City and the revenues provided by the City. Published reports have indicated that the City and other downstate customers account for about two-thirds of NYPA's revenues. As discussed herein, the City has numerous concerns with the level of costs that NYPA includes in the Cost-of-Service and with the process for determining the production rates. Given the importance of the City to NYPA, the City respectfully requests that the NYPA Board of Trustees ("Board") continue to focus on controlling and reducing NYPA's fixed costs.

In considering the proposed 2014 Cost-of-Service for the City at the September 24, 2013 Board meeting, no member of the Board raised any questions regarding the level of the fixed costs, nor was there discussion of the proposal. Rather, after summarily adopting NYPA's Staff's recommendation to issue the proposal for public comment, the Chairman commented that the Board could then "focus our time, effort, and energies where it really matters."[1] The City respectfully submits that the decision to charge the City and other New York City Governmental Customers ("NYCGCs") almost $800 million in production costs for 2014 is worthy of the Board's time and attention.

While the City appreciates the efforts taken to date to reduce the fixed costs for 2014, additional reductions should be made. The City respectfully urges the Board to carefully scrutinize the proposal before it and make the further adjustments discussed in these comments.

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1 http://streaming1.expeditevcs.com:8080/NYPA/NYPA092413-003.htm.

PROCEDURAL SETTING

In accordance with the LTAs, on May 23, 2013, NYPA distributed its *"Preliminary Staff Report – New York City Governmental Customers Annual Planning and Pricing Process Analysis, Including: Preliminary 2014 Cost-of-Service"* ("Preliminary Report") to the NYCGCs. At the time the Preliminary Report was issued, NYPA advised the NYCGCs that its 2014 budget had not yet been developed, and that some of the costs were "placeholders" that simply reflected increases compared to the 2013 fixed costs.

Discovery on the Preliminary Report ensued. Between June 2013 and September 2013, the City sought additional information on and clarifications of the information in the Preliminary Report. At its September 24, 2013 meeting, the Board summarily approved the issuance of a notice of proposed rulemaking for the 2014 Cost-of-Service. On October 16, 2013, a notice of proposed rulemaking associated with the 2014 Cost-of-Service was published in the State Register ("October 16 Notice"). Pursuant to § 202 of the State Administrative Procedure Act ("SAPA"), the City submit these comments in response to that Notice.

The original deadline for submitting comments was December 2, 2013. On November 26, 2013, NYPA extended the comment deadline to December 20, 2013. On or about December 6, 2013, NYPA posted to its website revised figures for the 2014 Cost-of-Service. On December 12, 2013, NYPA provided some support for the revised figures. While the City acknowledges that the revised figures represent an overall reduction in the 2014 Cost-of-Service and appreciates the additional supporting documents, the latter raised additional questions and the City has not had sufficient time to properly analyze the changes and the information provided.

COMMENTS

POINT I

THE PROPOSED LEVEL OF OPERATIONS AND MAINTENANCE EXPENSES SHOULD BE REDUCED

On a total basis, the fixed costs in the 2014 Cost-of-Service are expected to be 9.8 percent lower than the fixed costs incorporated into 2013 rates. However, the Board must take note of the fact that the reduction is largely due to NYPA's partial restructuring of debt service to match the underlying life of assets, and to the end of the amortization of the Poletti debt expense. Within the overall Fixed Cost category, the operations and maintenance ("O&M") expenses are increasing by $3.9 million, or 11.5 percent. While this amount may not seem large compared to the entire Fixed Costs, the increase has not been justified and the City's concerns should not be ignored.

One area of concern is the costs associated with the small hydroelectric facilities ("small hydros"). While the documentation provided on December 12 indicates that the O&M expenses for the small hydros has gone down compared to 2013, there is no basis to determine whether the amount proposed to be spent is reasonable. Indeed, the fact that the small hydros lose money each year calls into question the propriety of the expenditure level.

In particular, NYPA's plans for the Jarvis hydro warrant further consideration. NYPA explained to the NYCGCs earlier this year that Jarvis Unit #2 suffered some type of failure on June 29, 2012, and the turbine must be rebuilt at a cost now projected at $339,400. As noted above, the small hydros are not economic even when fully operational. However, it appears that NYPA conducted no analysis to determine whether rebuilding this unit is cost-justified. Compounding this concern, NYPA revealed for the first time in the December 12 documentation that it now plans to rebuild Jarvis Unit #1, presumably at a similar cost. Again, NYPA appears to have conducted no analysis to determine whether the rebuild makes economic sense.

In addition to the lack of justification, the recent information provided raises questions as to the manner in which NYPA intends to proceed. The original equipment was apparently of European design, and NYPA claims that it needs to reverse engineer the equipment in order to fabricate replacements. There is no explanation as to whether NYPA considered procuring replacement parts from the original equipment manufacturer, and the information also raises a question as to the prudence of NYPA's original actions and whether the NYCGCs should be responsible for the associated costs. Finally, the act of rebuilding a turbine is not a routine maintenance item; based on the description provided by NYPA, this work appears to be a major capital investment in the plant. As such, the costs of the work should be amortized over time.[2]

Before the Board approves the rebuild of either Jarvis Unit, it should require NYPA to prepare and present a cost-benefit analysis to the City and other NYCGCs. The decision to proceed should not occur until that analysis is completed and the City and other NYCGCs are given the opportunity to provide meaningful input into the matter.

Another specific concern pertains to NYPA's use of consultants, the costs of which are included in the O&M expenses. Specific inquiry was made regarding the nature and role of the consultants, and this matter was discussed during the August 19, 2013 meeting between the NYCGCs and NYPA. At that meeting, NYPA could not provide details regarding

2 This has been a continuing concern to the NYCGCs. Capital investments should be distinguished from O&M expenses and recovered over the life of the equipment. This is standard practice in the utility industry. NYPA, however, refuses to separate capital investments from O&M expenses and improperly recovers the entire capital cost of projects from the NYCGCs when the projects are undertaken.

the consultants and agreed to circulate information at a later date. Again, while the amounts are not large compared to the entire Fixed Costs, the City's questions as to the services consultants are allegedly providing, how the sharing percentages were determined, and why repairs and maintenance work cannot be performed by NYPA employees have not been answered. The City's concerns should be addressed.[3]

Another part of the information provided on October 7 pertained to the derivation of the allocation percentages used for Shared Services Expense. That explanation indicated that the "HQ Managed O&M – 2014 Forecast" is $208.6 million and that overheads are allocated based on labor ratios. No information was provided to show the derivation of the labor ratios, and the information shown is difficult to understand and track. The explanation suggests that only $99.2 million of the $208.6 million could be allocated directly to particular facilities. This suggests that almost 50 percent of the O&M costs represent administrative and general expenses – an unreasonably high percentage.[4]

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[3] On October 7, 2013, NYPA provided the following statements in apparent response to the City's request. Neither response is responsive to the question asked.

For AEII: "3. Listing of jobs/functions that consultants are involved with on behalf of City (shown at $140k): *The consulting costs represent a share of the projected expenditures for developing and implementing hedge strategies and hedge effectiveness testing, as well as support for emerging issues impacting NYPA fuel supply.*"

For the small hydros: "6. Small hydros – list of consultants and descriptions of what function(s) they perform: *The projects that consultants were projected to work on at the time of the 2014 Preliminary COS preparation are as follows: Crescent Fish Guidance System, Crescent Tainter Gate Painting, Restoration of Crests on Dams A & B at Crescent, Transmission Tower repair at Vischer Ferry and Restoration of Crests on Dams D, E & F at Vischer Ferry.*" [Source: *2014 City Cost Of Service – Fixed Cost Follow-Up Items*, Email from Michael Quinn to the City, dated October 7, 2013.]

[4] To try to better understand the information provided, the City reviewed the annual operating budgets approved by the Board. Doing so reinforced the City's concerns. The 2013 Operating Budget approved by the Board at is December 18, 2012 meeting shows a total budget of $366.7 million, exclusive of AEII and HTP lease costs. The breakdown included on page 4 of 5 of the budget shows headquarters expenses, inclusive of research and

NYPA's proposal to add a new line item to the Cost-of-Service and separately charge for AEII direct support and shared services also raised a number of concerns. The derivation of the AEII direct support and shared services costs of $2.1 million remains unexplained. NYPA could not provide any documentary support showing the legitimacy of the proposal, and its responses to information requests on this topic were contradictory and opaque. For example, in response to the City's information request 23, NYPA stated that it "absorbed these [the AEII] costs internally," but in the attachment to that response NYPA stated that the AEII costs "were either charged to the 500 MW [sic] or absorbed by other facilities." Thus, the

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development costs, being about 31 percent of the total budget, not 50 percent. The breakdown also shows different allocations from those provided on October 7, raising a question as to why total O&M costs are allocated based on labor ratios for the Cost-of-Service when the budget reflects a different allocation of O&M costs. For example, the 2013 budget shows SENY costs at 1.94 percent of the total budget, but the October 7 document shows an allocation of 3.88 percent. Also, from comparing the two documents, it is impossible to discern what constitutes "HQ Managed O&M" – nothing in the 2013 budget supports such an allocation of the total budget.

The costs shown in the two documents should be reconcilable, and the inability to reconcile them raises a concern about the propriety of the fixed costs included in the Cost-of-Service. According to reports provided by NYPA to the City each year, NYPA has overcollected its fixed costs on a total basis in two of the last three years; no information is given on a facility or line item basis, making it impossible to know where overspending or underspending may be occurring. In contrast to the dearth of details provided by NYPA, Consolidated Edison Company of New York, Inc. provides extensive, project-by-project details on its budgeted and actual expenditures as part of its rate cases. NYPA should consider providing a similar level of detail to the NYCGCs.

The information provided by NYPA on December 12, 2013 buttresses these concerns. The 2014 budget information provided does not distinguish between O&M expenses and shared services, nor do the labor allocations. Moreover, the information indicates two separate categories of "SENY" costs but with no explanation for the different categories. There are no labor costs assigned to SENY with or without a "WBS" code, yet $4.46 million of labor costs were assigned to SENY. The labor ratios also show duplicative allocations to the small hydros (under the "B" and "C" cost centers). While the information shows some decreases in 2014 compared to 2013, NYPA has not provided enough information to allow the City to reconcile the figures and ensure that costs are being properly allocated among NYPA's facilities.

City does not know what costs they were actually charged in the past, and it has no basis to determine whether the proposed costs are reasonable or appropriate.

In sum, NYPA has not properly justified its proposed O&M expense levels for the 2014 Cost-of-Service, and the City was not given sufficient information to confirm the reasonableness of the figures in the Preliminary Report. Moreover, the nature of this process is such that the City is not given the opportunity to comment on certain actual proposed spending levels when they replace earlier rough estimates that are primarily fixed percentage increases of the levels approved for the 2013 Cost-of-Service. Because of the insufficiency of the information provided, the City cannot opine on the reasonableness of the proposed O&M expenses. It is possible that further reductions to the allocations to the NYCGCs would be appropriate. Accordingly, the Board should require NYPA to provide more detailed explanations and justifications of the costs to it and to the NYCGCs, and it should ensure that the costs being properly allocated to the NYCGCs.

POINT II

NYPA SHOULD EXTEND THE RECOVERY PERIOD FOR THE 500 MW UNIT'S FIXED RATE DEBT SERVICE EXPENSE

Last year, the City asked the Board to improve the economics of the 500 MW unit by restructuring the unit's fixed and variable rate debt service expense to more closely reflect the expected life of the unit. The City appreciates that the Board favorably considered a part of this request and extended the recovery period for the variable rate debt service expense. That action helped, but it is not sufficient.

The economics of the 500 MW unit continue to be challenging and would be enhanced if the fixed rate debt service expense is restructured in a similar fashion to match the life of the plant. The detailed justification for doing so was provided by the City in the

December 17, 2012 comments submitted jointly with the other NYCGCs on the 2013 Cost-of-Service. That justification remains equally relevant this year, and in the interests of brevity, it is incorporated herein by reference.[5] The City respectfully requests that the Board extend the recovery period for the fixed rate debt service expense to no less than 30 years.

POINT III

THE VARIABLE DEBT RATES CHARGED TO THE NYCGCS ARE EXCESSIVE AND UNREASONABLE

Based on publicly available information, it appears that the interest rates charged by NYPA for the variable rate debt for the 500 MW unit and the small hydroelectric facilities is an order of magnitude higher than NYPA's actual cost. The use of such rates is unjust and capricious.

The 2014 Cost-of-Service uses the following interest rates for the variable rate debt.

TABLE 1

Variable Debt Interest Rates per 2014 Cost-of-Service

Figure	Title	Interest Rate
4E	500MW CCU – Variable Debt Service Expense Adjustable Rate Notes – Series 3 and 4	4.500 %
4F	500MW CCU - Variable Debt Commercial Paper Debt Service Expense	5.33 %
4I	Small Hydro - Variable Rate Debt Service Expense	4.94 % (weighted rate)

[5] Copies of the relevant pages from the 2012 comments are included in Appendix A.

However, NYPA's financial statements report the following as its actual interest rates.

TABLE 2 NYPA's Variable Debt Interest Rates	
Instrument	Interest Rate
Adjustable Rate Tender Notes – 2016	0.19 %
Adjustable Rate Tender Notes – 2020	0.19 %
Commercial Paper – EMCP (Series 1)	0.18 %
Commercial Paper – CP (Series 2)	0.16 %
Commercial Paper – CP (Series 3)	0.22 %
Source: NYPA Financial Statements, attached as Exhibit 3-A to the Minutes of the Regular Meeting of the Audit Committee on March 21, 2013	
Tax Exempt Commercial Paper – 1/1/14-12/31/14	0.25 % (assumed)
Taxable Commercial Paper – 1/1/14-12/31/14	0.50 % (assumed)
Tax Exempt Commercial Paper – 1/1/15-12/31/15	0.50 % (assumed)
Taxable Commercial Paper – 1/1/15-12/31/15	0.75 % (assumed)
Source: NYPA 2014-2017 Proposed Budget and Financial Plan[6]	

A comparison of Table 2 and Table 3 reveals order of magnitude differences between the rates charged to the NYCGCs and NYPA's actual interest rates for variable rate debt. The interest rates included in the 2014 Cost-of-Service should be consistent with the NYPA's actual borrowing costs. Accordingly, the Board should direct NYPA to recalculate and reduce the variable rate debt expenses included in the Cost-of-Service.

6 The 2013-2016 Approved Budget and Financial Plan included similar interest rates as those shown above for the years in question.

POINT IV

THE COSTS FOR THE BLENHEIM-GILBOA PUMPED STORAGE FACILITY SHOULD BE REDUCED

Under the LTA, the NYCGCs' supply portfolio includes 250 MW from NYPA's Blenheim-Gilboa Pumped Storage Power Project ("Blenheim-Gilboa Facility"). As with the small hydros, the inclusion of the Blenheim-Gilboa Facility constitutes a net increase to the NYCGCs' production costs, whereas the initial purpose for including that output in the portfolio was to provide a benefit to the NYCGCs. The deficiency results from two factors.

First, NYPA has layered substantial transmission costs onto the costs of the Blenheim-Gilboa Facility. In recent years, the net revenues resulting from the sale of the Facility's output are insufficient to offset even the higher-than market capacity charge; adding these transmission costs only makes the economics worse for the City. The costs and revenues since the LTA was executed are shown in Table 3.

TABLE 3
Blenheim-Gilboa Costs and Revenues

Year	Gross Cost ($ millions)	NYISO Revenues ($ millions)	Net Cost/Revenues ($ millions)
2005	10.47	(3.44)	7.03
2006	10.47	(2.79)	7.68
2007	10.47	(3.28)	7.19
2008	10.47	(3.40)	7.07
2009	10.47	(1.05)	9.42
2010	10.47	(1.61)	8.86
2011	10.47	(1.66)	8.81
2012	10.47	(2.44)	8.03

Second, NYPA charges the NYCGCs a rate that is too high for the cost of capacity. The rate of $3.49/kW-month for the Blenheim-Gilboa Facility's capacity is reduced by offsetting energy revenues, for a net capacity cost of just under \$3.00/kW-month over the past few years. Yet Rest-of-State capacity prices have been as much as \$1.00/kW-month to \$2.00/kW-month less than this net over this period. Every \$1.00/kW-month is an additional \$3 million above market costs for Rest-of-State capacity charged to the NYCGCs. There is no justification for the higher than market charges, and the Board should direct NYPA to immediately change the formula. At no time should the effective rate charged be higher than the market price of capacity.[7]

POINT V

COLLECTIONS FOR POLETTI DECOMMISSIONING COSTS ARE UNSUPPORTED

Notwithstanding the fact that the Charles A. Poletti Generating Station ("Poletti") closed almost four years ago, NYPA continues to include Poletti-related costs in the Cost-of-Service. While some progress on this issue was made last year, the City's concerns have not been fully addressed.

The City voiced its concerns with the Poletti decommissioning cost estimate to NYPA during the discovery phase of the process, and NYPA agreed to provide a clearer breakdown of the actual and anticipated costs. NYPA provided a revised breakdown, but instead of providing greater clarity, it compounded the concerns. According to the documents provided, the amounts in five of the six cost categories changed between August and October, and the overall decommissioning cost increased by \$400,000. However, NYPA provided no explanation for the changes or cost increase. To resolve these concerns, the Board should require NYPA to prepare and provide a detailed, itemized list of all of the Poletti decommissioning costs, with

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[7] The City is willing to discuss which market price should be used – strip, monthly, or spot.

references to supporting documents (*e.g.*, contracts, invoices, engineering plans) that justify each line item.

POINT VI

THE DECOMMISSIONING COST AND CORRESPONDING ANNUAL ASSET RETIREMENT CHARGE FOR THE 500 MW UNIT SHOULD BE ADJUSTED DOWNWARD

Very recently, NYPA advised the NYCGCs that adjustments had been made to annual asset retirement charge related to the decommissioning of the 500 MW unit. These adjustments lowered the charge by $1.5 million, which is a positive step, but that action does not fully address the unreasonableness of the charge. Indeed, although the annual charge was lowered, NYPA increased the decommissioning cost. For the reasons discussed below, the Board should reverse this increase, further reduce the cost estimate, and concomitantly reduce the annual asset retirement charge.

The best evidence of the cost to decommission and dismantle the 500 MW unit would be a decommissioning study. The use of decommissioning studies has been long accepted in the utility industry. Recognizing that decommissioning costs can change over time, utilities review and update such studies periodically to ensure that that their decommissioning funds are sufficiently funded. For example, NYPA and every other nuclear plant operator conducted decommissioning studies for their nuclear units to determine the appropriate level of their annual trust fund contributions. When nuclear plants were sold, the decommissioning studies were updated and corresponding adjustments were made to the purchase price to reflect the over- or under-funding of the decommissioning trusts.

To the City's knowledge, NYPA has never commissioned a decommissioning study for the 500 MW unit, so it has no reasonable basis to assume that either of its $60 million estimate in 2000 dollars provided in the Preliminary 2014 COS, or its \$63.7 million estimate in 2013 dollars provided in the Final 2014 COS, are valid or reasonable. In the absence of such a study, the Board should look to empirical data. The decommissioning cost of Poletti of \$47.3 million in current dollars is a reasonable and more rational data point to use.

As the Board is aware, the Poletti building is a substantially more robust structure than the building housing the 500 MW unit. The design and size of the boiler, the structural steel supporting it and the building, and the size and location of the building in relation to other buildings and equipment that are still operating all influence the decommissioning cost. Taking these factors into account, NYPA has advised the NYCGCs that the total decommissioning cost will be approximately \$47 million. The design of the 500 MW unit, particularly the design of the building and the relative location of the plant, should make its dismantlement easier and less expensive than Poletti. Therefore, there is no reasonable basis for NYPA's assumption that it will cost approximately 35 percent more to decommission the 500 MW unit (*i.e.*, \$47.3 million in 2013 dollars compared to \$63.7 million in 2013 dollars).

Last year, based on the decommissioning costs for Poletti provided by NYPA, the NYCGCs argued that the assumed total cost and annual asset retirement charge for decommissioning the 500 MW unit were too high and should be reduced. In response to these assertions, NYPA claimed to the Board that there is high volatility in such costs, decommissioning would not occur for decades, and if the actual decommissioning costs are lower than projected, collections from the NYCGCs may be reduced in the future.[8] In its recent explanation of the changes made to the calculation of the annual charge, NYPA again asserted that the costs will be reconciled when the facility is decommissioned, and the NYCGCs will be

[8] Minutes from the February 26, 2013 Board meeting, p. 25.

responsible only for the actual costs once they are known. NYPA's assertions lack merit, and the Board should not accept it or allow the NYCGCs to be overcharged for this item.

The problem with NYPA's position is that it is not appropriate to over collect the decommissioning costs each year. Moreover, the plant is expected to continue to operate for at least two decades. The cost should be collected ratably over the period, not overcollected in earlier years, subject to potential refund at the end. Further, there is no certainty that the City and other NYCGCs will be NYPA customers when the 500 MW unit is retired. Therefore, it would be arbitrary and irrational for the Board to continue to overcharge the NYCGCs, and to refuse to consider adjusting the annual charge on the basis that the City possibly could be made whole 20 or more years from now.

The charges included in the 2014 Cost-of-Service for decommissioning the 500 MW unit are unjust, unreasonable, and unsupportable. Therefore, the Board should, at a minimum, set the total decommissioning cost at no more than $47.3 million in current dollars, and use that figure as the basis for annual asset retirement charges. Applying the same calculations used in Figure 5B of the Preliminary Report results in an annual asset retirement charge of $1.067 million.

CONCLUSION

The City respectfully requests that the NYPA Board of Trustees adjust the level of fixed costs for the 2014 Cost-of-Service and adopt other changes in accordance with the discussion and recommendations set forth herein.

Dated: December 20, 2013
Albany, New York

Respectfully submitted,

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Decrease in New York City Governmental Customer Fixed Cost Component – Notice of Adoption

Exhibit "B"

Current 2013 and Proposed 2014 Customer Production Rates

NEW YORK CITY GOVERNMENTAL CUSTOMERS

EXHIBIT "B"

Service Tariff No. 100 Rate Comparison (Current vs. Proposed)

	Demand ($/kW)		ENERGY (¢/kWh)											
			SUMMER		SUMMER ON PEAK		SUMMER OFF PEAK		WINTER		WINTER ON PEAK		WINTER OFF PEAK	
Service Classification	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
SC 62 Conventional	$0.00	$0.00	7.746	7.516					7.267	7.032				
SC 65 Conventional	$8.15	$8.67	6.051	5.887					5.581	5.413				
SC 66 Conventional	$0.00	$0.00	5.937	5.908					5.937	5.908				
SC 68 Conventional	$17.56	$15.68	5.637	5.651					5.158	5.167				
SC 68 TOD	$18.42	$14.22			6.782	6.249	4.688	4.135			5.702	5.040	4.668	4.211
SC 69 Conventional	$12.50	$11.86	5.869	5.773					5.391	5.290				
SC 69 TOD	$13.23	$12.93			6.935	6.918	4.887	4.839			5.878	5.730	4.866	4.914
SC 69 KIAC TOD	$13.23	$12.93			5.125	5.403	3.077	3.324			4.068	4.214	3.057	3.399
SC 80 Conventional	$1.72	$1.77	5.461	5.326					5.461	5.326				
SC 82 Conventional	$11.88	$10.56	5.898	5.999					5.418	5.515				
SC 85 Conventional	$11.36	$13.36	6.043	5.817					5.577	5.347				
SC 91 Conventional	$11.44	$10.11	5.988	6.031					5.509	5.548				
SC 91 TOD	$14.60	$13.64			6.985	6.920	4.892	4.806			5.906	5.711	4.872	4.882
SC 93 Conventional	$7.94	$8.02	6.013	6.299					5.539	5.821				
SC 98 Conventional	$5.42	$4.82	5.845	6.435					5.366	5.953				
SC 98 TOD	$10.21	$10.13			6.994	6.898	4.936	4.820			5.932	5.710	4.916	4.895

Service Tariff No. 100 Demand Standby Rate Comparison (Current vs. Proposed)

	CONTRACT DEMAND ($/KW per month)				AS USED DEMAND ($/KW per day)			
	High Tension		Low Tension		High Tension		Low Tension	
Service Class	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
SC68 TOD	$1.388	$1.071	$1.473	$1.137	$0.525	$0.405	$0.557	$0.430
SC69 TOD	$1.014	$0.991	$1.059	$1.034	$0.384	$0.375	$0.400	$0.391
SC91 TOD	$1.100	$1.028	$1.168	$1.091	$0.416	$0.389	$0.442	$0.412
SC98 TOD	$0.782	$0.777	$0.817	$0.810	$0.296	$0.294	$0.309	$0.306

Service Tariff No. 100 Energy Credit Standby Rate Comparison (Current vs. Proposed)

	ENERGY CREDIT (¢/kWh)							
	SUMMER ON PEAK		SUMMER OFF PEAK		WINTER ON PEAK		WINTER OFF PEAK	
Tension	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
High Tension	5.575	5.471	3.565	3.593	5.134	5.332	3.978	3.963
Low Tension	5.298	5.200	3.388	3.415	4.880	5.068	3.781	3.767