



Date: September 27, 2016

To: THE TRUSTEES

From: THE PRESIDENT and CHIEF EXECUTIVE OFFICER

Subject: Increase in Westchester County Governmental Customer Rates – Notice of Proposed Rulemaking

SUMMARY

The Trustees are requested to approve a Notice of Proposed Rulemaking (“NOPR”) to increase the production rates by 8.81%, as compared to 2016 rates for the Westchester County Governmental Customers (“Customers”).

In addition, the Trustees are requested to direct the Corporate Secretary to file the NOPR with the New York State Department of State for publication in the New York *State Register* in accordance with the requirements of the State Administrative Procedure Act (“SAPA”). Following the publication of this NOPR in the *State Register*, the 45-day public comment period will begin on October 19, 2016 and close on December 5, 2016.

Further, since the proposed increase includes an increase to the Fixed Costs by more than 2.0%, a public forum will be held in accordance with the Authority’s policy. The Trustees’ authorization is also requested to direct the Corporate Secretary to provide all appropriate notice for such public forum.

Upon closure of the aforementioned public comment period, Authority staff will take into consideration concerns that have been raised, if any, and return to the Trustees at their January 2017 meeting to seek final adoption of this proposal.

BACKGROUND

The Authority provides electricity to 103 governmental customers in Westchester County, which includes the County of Westchester, school districts, housing authorities, cities, towns and villages. The County of Westchester is the largest single customer, accounting for about one-third of sales.

The basis of providing service is contained in the Supplemental Electricity Agreements (“Agreements”) with the Customers. The Agreements were approved by the Trustees at their December 19, 2006 meeting, and were signed by each of the 103 Customers. Among other things, the Agreements permit the Authority to modify the Customers’ rates (for Rate Years subsequent to 2007) at any time based on a fully supported pro forma Cost of Service (“COS”) subject to Customer review and comment and compliance with the SAPA process; permit the Customers to fully terminate service on one year’s written notice, which, if given, could be effective no earlier than January 1, 2018; and allow the Authority to apply an Energy Charge Adjustment (“ECA”) mechanism to the Customers’ bills each month.

The current 2016 base production rates were adopted by the Trustees at their March 29, 2016 meeting, when they approved a 2.37% decrease over 2015 rates. Staff is now proposing a 2017 rate increase which is largely due to expected increases over 2016 rates in energy and capacity prices, which are part of the Variable Costs component to be purchased from the New York Independent System Operator (“NYISO”) market to serve these Customers. In addition, the Fixed Costs component is also expected to increase.

The Authority’s policies and procedures call for a public forum if the Fixed Costs component of the proposed rate increase exceeds 2.0%. Since the proposed increase is greater than 2.0%, Authority staff recommends that a public forum be held. A public forum allows the Customers an additional opportunity to voice their concerns regarding the increase in the proposed 2017 Fixed Costs component.

DISCUSSION

Consistent with the Authority’s past rate-making practices and with the rate-setting process set forth in the Agreements, the proposed production rate increase is based on a pro forma COS for next year. The Preliminary 2017 COS for the Westchester Customers is \$36.01 million, compared to \$32.06 million in the Final 2016 COS.

The Variable Costs component is projected to increase from \$30.11 million to \$33.25 million, an approximate \$3.14 million or 10.4% increase as compared to the Final 2016 COS. The primary cost element, energy purchases, is \$25.13 million and accounts for 70% of the total production costs. Although these Customers receive a pro-rated share of energy from the small hydro generation facilities, most of their energy requirements are purchased from the market (in NYISO Zones “G” (Hudson Valley) and “A” (Western New York)). The projected 2017 prices for Zone G are expected to be higher than those that were projected for 2016 and incorporated into the rates that are currently in effect. Also contributing to the increase in Variable Costs are two new cost elements, the Clean Energy Standard (“CES”) charge and the New York Transco costs. The CES charge consists of a Zero Emission Credit (“ZEC”) and a Renewable Energy Credit (“REC”) charges. These charges have been developed by the New York Public Service Commission to support the adoption of Clean Energy Standard. The CES implements the clean energy goals of the State Energy Plan. ZECs are payments made to nuclear plants to support the preservation of existing at risk nuclear zero emissions attributes. Procurement of RECs is based on an obligation to invest in renewable generation resources to serve the Load Serving Entity’s retail customers. It is estimated to cost the Customers approximately \$1.45 million to purchase ZECs and RECs for their load. New York Transco costs are allocated to the Authority as a Load Serving Entity as part of the NYISO charges in accordance with the New York Transco settlement agreement approved by the Federal Energy Regulatory Commission. The New York Transco Costs for the Customers are estimated to be \$0.25 million in 2017.

As part of the proposed production rate increase, the Fixed Costs component is expected to increase from \$1.95 million to \$2.76 million, an approximate \$810,000 or 41.5% increase as compared to the Final 2016 COS. The proposed net increase is driven by an approximate \$670,000 increase in Operations & Maintenance (“O&M”) costs, mainly due to a planned increase in work at the Small Hydro facilities.

The increase in Other Expenses of the Fixed Cost component is \$130,000 in the Preliminary 2017 COS as compared to the Final 2016 COS. However, in the Final 2016 COS, the Customers were issued an approximate credit of \$130,000 to correct historical cost accounting related to Demand Side Management (“DSM”). Although Other Expenses is contributing \$130,000 to the increase in Fixed Costs, the increase in Other Expenses is \$3,000

if not including the DSM credit when making the comparison between the Final 2016 and Preliminary 2017 costs.

Applying current rates to the 2017 Customers' sales forecast results in projected revenues of \$33.09 million, representing an under-collection of \$2.92 million from the Customers. Therefore, staff is proposing an 8.81% increase in base production rates to reflect the rise in the purchased energy costs contained in the currently effective 2016 rates.

Under SAPA, there is a 45-day public comment period on the rate change. At the close of the comment period, Authority staff will review any comments which have been filed and, if warranted, staff will make any necessary changes to the proposed rates to address any concerns raised. Staff will return to the Trustees at their January 2017 meeting to request approval of the final rate modification to become effective with the January 2017 billing period.

FISCAL INFORMATION

The proposed production rates are cost-based, and with the application of the Energy Charge Adjustment mechanism, staff anticipates that the Authority will recover all costs incurred in serving the Customers.

RECOMMENDATION

The Manager – Pricing & Energy Market Analysis and the Vice President – Finance recommend that the Trustees authorize the Corporate Secretary to file a Notice of Proposed Rulemaking in the New York *State Register* for the adoption of a production rate increase applicable to the Westchester County Governmental Customers.

It is also recommended that the Vice President – Finance, or his designee, be authorized to issue written notice of the proposed action to the affected Customers under the provisions of the Authority's tariffs.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below.

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That the Vice President – Finance, or his designee, be, and hereby is, authorized to issue written notice to the affected Customers of this proposed action by the Trustees for a projected 8.81% increase in the production rates applicable to the Westchester County Governmental Customers as set forth in the foregoing memorandum of the President and Chief Executive Officer; 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 Secretary 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 proposed rate increase, including those notices required for a public forum, and proposed tariff modification; and be it further

RESOLVED, That the Chairman, the Vice Chairman, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.