



DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER

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Martha K. Hirst
Commissioner

Citywide Personnel
Services

November 27, 2006

VIA E-MAIL AND EXPRESS MAIL

Facilities
Management &
Construction

Anne Cahill, Corporate Secretary
New York Power Authority
123 Main Street
White Plains, NY 10601

Municipal Supply
Services

Re: New York State Register ID No. PAS-41-06-00033-P,
Rates for the Sale of Certain Power and Energy

Real Estate Services

Dear Secretary Cahill:

Citywide Equal
Employment
Opportunity

Pursuant to the provisions of the State Administrative Procedures Act, as well as the Long Term Agreement dated March 18, 2005, between the City of New York ("City") and the New York Power Authority ("NYPA"), the City hereby submits the attached Comments on the fixed cost component of the rates scheduled to be imposed on the City during 2007. The City hereby requests that the 2007 rates be reduced in accordance with the Comments.

Citywide
Occupational Safety
& Health

Sincerely,

Martha K. Hirst

Transportation
Services

attachment

C: Louise M. Morman
James Yates
Helle Maide
Lewis S. Finkelman
Donald P. Brosen
Susan Cohen

The City Record

CityStore

POWER AUTHORITY OF THE STATE OF NEW YORK

**New York State Register ID No. PAS-41-06-00033-P,
Rates for the Sale of Certain Power and Energy**

COMMENTS OF THE CITY OF NEW YORK

(Fixed Costs)

DATED: November 27, 2006

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PRELIMINARY STATEMENT

Pursuant to the provisions of the State Administrative Procedures Act (“SAPA”), the City of New York (“City”) hereby submits these comments on the New York Power Authority’s (“NYPA”) proposal to increase the “fixed costs” component of its overall rates for 2007 (“2007 SENY Rate Plan”).¹

The City currently contracts with NYPA for the purchase of full requirements electric supply service. The electricity purchased by the City is used to provide or support critical public services (e.g., schools, housing, health care, transportation) and for economic development purposes. It is estimated that the City will purchase over 900 megawatts (“MW”) of electric capacity from NYPA in 2007 and pay NYPA approximately \$325 million for that power.

BACKGROUND INFORMATION

In 1976, NYPA became a party with several major Southeastern New York customers (“SENY Customers”) to an Application for Electric Service (“Applications for Service”) under which NYPA furnishes capacity and energy to certain major SENY Customer facilities in New York State. These Applications for Service have been supplemented and amended from time to time pursuant to agreements executed by the SENY Customers and NYPA (collectively, the “Parties”).

On March 18, 2005, the Parties entered into a Long Term Agreement (“LTA”) that addresses the rates NYPA will charge New York City Governmental Customers,

¹ NYPA, Preliminary Staff Report, 2007 Cost of Service, (May 15, 2006).

including the City. The LTA, in part, provides for a long term rate-setting process that is to be performed on an annual basis. This rate-setting process requires that all costs be based on NYPA's cost of providing service. The LTA designates different treatment for fixed costs and variable costs, as those terms are defined in the LTA. Fixed cost increases must be set consistent with accepted regulatory [cost-of-service] methodologies, and can be changed only through a rate case filing in accordance with SAPA. Variable costs, on the other hand, are subject to a contract-based annual rate-setting process ("Annual Process") that provides for the filing of estimated variable costs for the succeeding year ("Base Variable Costs"). The annual process also provides the NYC Governmental Customers with pricing options (these are cost recovery mechanisms for NYPA) for the variable costs, and some of those options include hedging opportunities.

The comments below will only focus on the fixed costs which are proposed in the 2007 SENY Rate Plan. Any comments on the proposed variable cost component of the 2007 SENY Rate Plan will be addressed separately.

SUMMARY OF POSITION

The 2007 SENY Rate Plan proposes to increase the "fixed costs" component of the overall (production and delivery) rates by \$12 million or 8.7 percent from that of the 2006 SENY Rate Plan. For the reasons set forth below, the City contends that certain components of the fixed cost estimates included in the 2007 SENY Rate Plan are overstated. Accordingly, the City requests that NYPA's 2007 revenue requirement be reduced as indicated below.

A. FIXED COSTS IN THE 2007 SENY RATE PLAN ARE OVERSTATED

1. O&M Costs

The O&M expenses consist of costs associated to operate Poletti, 500 MW CCU and the Small Hydro Plant. The 2007 SENY Rate Plan indicates that there is an increase in O&M costs from the annualized 2006 level of approximately \$2.2 million. This increase in the O&M costs, as stated in the 2007 SENY Rate Plan, is associated with “contracted services” for the 500 MW CCU.²

Overall, the 2007 SENY Rate Plan seeks to recover \$11.5 million for O&M costs for the 500 MW CCU unit. This is well in excess of the historical costs that are available. Actual O&M costs associated with the 500 MW CCU unit through September, 2006, are \$5.4 million. Annualizing that for a full year of operation places this cost at about \$7.2 million. Therefore, the total O&M cost associated with the 500 MW CCU unit is \$4.3 million higher in the 2007 SENY Rate Plan.

In response to a discovery request, NYPA has stated that a portion of the 500 MW CCU unit increase is due to a \$2.3 million outage inspection, a one time, non-recurring cost.³ If we discount the \$2.3 million associated with the one time outage inspection cost, we are still left with an unexplained increase of \$2.0 million in O&M costs for the 500 MW CCU unit. Given that the 500 MW CCU unit is almost new, an unjustified increase in O&M costs of this magnitude is not acceptable. Accordingly, the City requests that the overall

² NYPA is forecasting a contracted service cost for the 500 MW CCU of \$4.7 million. This represents an increase of about \$2.2 Million from the 2006 actual costs, which are projected to be about \$2.5 million.

³ See Response to Data Request Question #10.

O&M costs associated with the 500 MW CCU unit should be reduced by \$2.0 million to better reflect historical levels. Additionally, the City requests that the \$2.3 million non-recurring cost for the outage inspection be spread over a three year period, with equal allocations in the 2007, 2008 and 2009 SENY Rate Plans.

2. Shared Services Expense

Fixed costs in the 2007 SENY Rate Plan include an allocation of NYPA's projected 2007 expenses for its headquarters and for research and development. Specifically, the 2007 SENY Rate Plan allocates 19.29 percent (\$18.7 million) of the total budget to the SENY customers as Shared Services expense. The 2006 Rate Plan used an allocator of 17.65 percent (about \$16 million) for Shared Services expenses. This \$2.7 million cost increase in the 2007 SENY Rate Plan represents a 17 percent total cost increase for Shared Services from the 2006 rate plan.

The increase in the allocation factor is responsible for about half of the 17 percent increase in Shared Services, with the remainder being attributable to increases in the cost base from the 2006 Rate Plan. The City contends that this proposed 17 percent increase in Shared Services is unwarranted. NYPA has not properly justified the increase in the allocation factor and, until it does, this significant change in the factor should not be allowed. Thus, even if the cost base for Shared Services is increased, the 2006 allocation factor should be utilized and the estimate for the Shared Services expense should be reduced accordingly.

3. Other Expenses – Site Demolition and Restoration

The 2007 SENY Rate Plan includes \$15.7 million total cost for Other Expenses. \$7.5 million of these costs are associated with Site Demolition and Retirement - Poletti (Demineralizer \$3.9 million) and the 500 MW CCU (approximately \$3.6 million). As the City argued in response to the 2006 SENY Rate Plan, the methodology process by which the Site Demolition and Restoration expense is determined needs to be revised.

In determining the \$7.5 million cost for Site Demolition and Retirement, an assumed inflation factor of 3.5 percent was used. This is excessive. Current projections of inflation, using the CPI as the indicator, place the appropriate inflation rate at approximately 2.7 percent. Accordingly, there is no way to support the 3.5 percent inflation factor that was used and the Site Demolition and Retirement expense should be revised downward to reflect the utilization of a 2.7 percent inflation factor.

In addition, the 2007 SENY Rate Plan does not recognize any value to the plant sites after decommissioning and dismantling. Given the anticipated, continuing in-City need for electric generating capacity, and the general dearth of acceptable sites for new generation, it is reasonable to assume that the plant sites may be utilized again in the future as generation sites. It is even more reasonable to assume that, after dismantling and restoration occurs, the restored property will have some value. Nevertheless, the study allocates zero residual value to the land, either as an ongoing generating site or a restored, non-generating site.

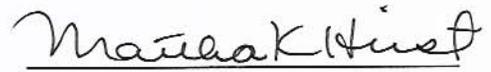
Although the City recognizes that it is difficult to estimate the future value of the plant sites, that value cannot simply be ignored. Accordingly, the City recommends that,

at a minimum, NYPA redo the decommissioning study and include a realistic appraisal of the restored properties without generation at the sites.

CONCLUSION

The Fixed Costs included in the 2007 SENY Rate Plan should be reduced in accordance with the comments set forth above.

Dated: November 27, 2006


Martha K. Hirst
Martha K. Hirst
Commissioner
Department of
Citywide Administrative Services