

**NYPA Governmental Customer Production Rate and Delivery Rate Redesign
Recommended Plan**

SUMMARY

The conclusions from NYPA's governmental customer rate redesign and cost studies in 2010 and 2011 for New York City ("NYC") and Westchester County ("Westchester") governmental customers (collectively, "Governmental Customers" or "Customers") is that significant service class cross subsidies exist in the current production and delivery rates. Production and delivery rates are summarized in NYPA's Service Tariff No. 100 (applicable to the NYC Governmental Customers) and in NYPA's Service Tariff No. 200 (applicable to the Westchester Governmental Customers). Additionally, the delivery rate study notes that NYPA's current base delivery rates to Customers over-collect about \$9.6 million annually as compared to Consolidated Edison Company of New York, Inc.'s ("Con Edison") delivery charges to NYPA, which are contained in Con Edison's delivery tariff known as PASNY No. 4.

Throughout 2010, NYPA staff conducted numerous joint Customer meetings, joint technical conferences, individual Customer and consultant meetings and teleconferences to help initiate and refine the rate design studies, disseminate and explain the results, and obtain verbal and written feedback. NYPA procured the services of the consulting firm Black & Veatch to perform critical analyses and reports to assist NYPA staff in this effort. Based on the extensive interaction with Customers and their consensus on numerous issues, NYPA staff has developed this Recommended Plan which, if implemented, would reduce the production and delivery rate service class imbalances and mitigate excessive bill impacts.

Following are the notable features of the Recommended Plan:

- The redesign of the current production rates structure for NYC and Westchester Governmental Customers would be effective July 2011, based on NYPA's 2011 cost of service approved for these entities.
- Redesigned production rates are revenue-neutral to NYPA.
- For the delivery rate redesign, a bifurcated plan is recommended to address the significantly different cost impacts on the NYC Governmental Customers on the one hand, and the Westchester Governmental Customers on the other. Because of the wide disparity in bill impacts and differing contract terms under the electricity supply agreements with the Customers, a phase-in for the NYC Governmental Customers is recommended, while an immediate implementation is recommended for Westchester.
- Because certain NYC Governmental Customers would be subject to sudden, large cost impacts if redesigned delivery rates were implemented in one rate year, it is recommended that such delivery rates be phased in over a four-year period, beginning in July 2011. Subsequent phase-ins would occur each April thereafter for the next three years. (April is the month in which Con Edison implements new delivery rates per existing Public Service Commission rate orders.) At the

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end of the phase-in, the NYPA delivery rates would fully match up with the applicable Con Edison delivery rates.

- For Westchester Governmental Customers, it is recommended that redesigned delivery rates be re-set to match those of Con Edison immediately, commencing in July 2011.
- Concurrent with implementation of redesigned production and delivery rates in July 2011, NYPA recommends crediting Customers with the accumulated balance in over-recovered delivery charges through that date. The balance was \$39.1 million through the end of January 2011. Only those Customers whose current delivery rates are set too high would receive any credit for past over charges.

The attached Schedule 1 shows the estimated bill impacts for implementing recommended production and delivery rates for all Governmental Customers.

A. Production Rates

Staff is recommending the immediate implementation of new, revenue-neutral, cost-based production rates based on the Black & Veatch September 2010 Report and March 2011 Addendum. These documents reflect feedback obtained from the Customers through ongoing meetings occurring throughout 2010. Further, the 2011 Addendum is updated to reflect the cost of service approved on January 25, 2011 by the NYPA Trustees for 2011 for the Governmental Customers.

New revenue-neutral production rates reflect the following:

- Cost allocation to each service class based on a 2009 NYPA load research study indicating various demand and energy usage characteristics of each service class.
- Implementation of time-of-day and seasonal rates based on a hourly marginal cost analysis using 2010 hourly NYPA load and New York Independent System Operator ("NYISO") hourly Zone G and Zone J price data.
- Collection of variable costs predominantly via energy kilowatt-hour ("kWh") charges and fixed costs predominantly via the demand kilowatt ("kW") charge.
- Use of Customer peak demands at the time of the NYISO peak to assign certain generation costs and revenues to Customer classes.
- Consolidation of general Service Classes 64 and 69 due to similarity of usage patterns and service.

Additional features of the production rate redesign Recommended Plan are:

- Implementation of new Standby and Net Metering tariff provisions in July 2011.
- Implementation of minimum billing charges in 2012.

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B. Production Rate Recommended Implementation Plan

The recommended restructured production rates will become effective with the July 2011 billing period. This will be followed by a redesign update by year-end 2011 for the 2012 rate year (for production charges, NYPA's rate year is the same as the calendar year) and then biennial redesign updates to NYPA's cost of service in 2013 for the 2014 rate year and in 2015 for the 2016 rate year. For each cost of service update, the following is envisioned:

1. The goal will be to review existing production rate designs to verify that they remain cost-based. Any changes in the overall level of the cost of service will be incorporated into the study such that the recommended rate designs will recover the approved cost of service.
2. Load research will be updated to reflect the most recent historical calendar year data available. For instance, the 2013 biennial update will utilize 2012 load research results.
3. A new allocated cost-of-service study will be developed that relies on the most recently available approved cost-of-service study for the Governmental Customers. For instance, the 2013 biennial update will rely on the 2013 approved cost of service.
4. The study will incorporate a review of all cost allocation bases to verify that each cost item is assigned to service classes in the appropriate manner.
5. The marginal cost analysis will be updated for the most recent historical calendar year reflecting NYPA's Governmental Customer hourly load data and NYISO hourly Zone G and Zone J prices. Updated seasonal and time-of-day price differentials will be established.
6. New rate designs will be developed based on the allocated cost of service to each service class, incorporating seasonal and time-of-day price differentials resulting from the updated marginal cost study.
7. Bill impacts will be developed, using Governmental Customer billing determinants from the most recent calendar year historical data available or from forecasted Governmental Customer billing determinants.
8. Results will be shared with Customers during the summer/fall of each biennial update, and, as appropriate, rate designs will be modified to reflect feedback received.
9. New rate designs as required in the Recommended Plan will become effective in the next rate year. For example, the 2013 biennial update will be shared with Customers in summer/fall 2013, to propose new production rates effective in January 2014.

In the interim years of 2012 and 2014 the intent is not to restructure production rates. Rather, the then-existing rate designs will be maintained. Any change in the level of the

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production cost of service will be passed through to Customers in an equal, across-the-board manner. Additionally, in such non-update years, staff will perform preliminary analyses to verify that the existing production rates remain appropriately cost-based. If significant changes have occurred due to modifications in NYPA's cost structure or other factors impacting rates (such as changes in Customer load profiles or market prices affecting seasonal/time-of-day price differentials), then NYPA, at its own discretion, may propose to accelerate the schedule for updating production rate designs to what would otherwise be considered a non-update year.

C. Delivery Rates

NYPA proposes to implement Con Edison-based delivery rates for all Governmental Customers. Significant misalignment between what Con Edison charges NYPA for delivery service and what NYPA, in turn, charges the Governmental Customers, has been documented. The Recommended Plan takes the necessary steps to correct this misalignment.

Westchester Governmental Customers, whose delivery rate changes will be effective immediately, will experience bill impact savings associated with the change to Con Edison delivery rates. For NYC Governmental Customers, it is estimated that at least six service classes would receive rate decreases of 20% while Service Classes 85 (MTA traction facilities) and 98 (NYC wastewater treatment plant) would receive rate increases of nearly 200% each. To mitigate the potential rate impacts of immediate implementation, a four-year phase-in of Con Edison delivery rates is planned for NYC Governmental Customers.

D. Base Delivery Rate Over-Collection

The first year of phase-in rates eliminates the \$9.6 million over collection of Con Edison's delivery charges by NYPA. Of the \$9.6 million, it is estimated that Westchester overpays \$8.5 million. The remaining \$1.1 million is the net impact of a \$37.6 million under collection from the Metropolitan Transportation Authority ("MTA," one of the NYC Governmental Customers) offset by a \$38.7 million over collection from the remaining NYC Governmental Customers. During subsequent phase-in years, over- and under- collections among Customer service classes are further harmonized such that by 2014 NYPA's redesigned delivery rates charged to NYC Governmental Customers are fully synchronized with Con Edison's delivery rates on a revenue neutral basis to NYPA. As seen on Schedule 1, Column (E), the \$9.6 million over-collection in base delivery rates is eliminated during the first year of implementation of proposed phase-in of NYPA delivery rates.

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E. Delivery Rate Recommended Implementation Plan-Westchester

The terms of Westchester and NYC Governmental Customer electricity supply agreements bolster a bifurcation approach. For Westchester Governmental Customers, contract provisions require a pass-through of these charges to each individual Customer and it is recommended that delivery rates be fully synchronized with those of Con Edison immediately commencing in July 2011. On the other hand, the NYC Governmental Customer agreement states that aggregate delivery charges to the NYC Governmental Customers should be designed to equal aggregate amounts charged by Con Edison. Therefore, staff recommends a bifurcated plan for implementation of new delivery rates where Con Edison rates are implemented immediately for Westchester Governmental Customers and phased-in for NYC Governmental Customers. In total Westchester Governmental Customers will see an \$8.5 million reduction in delivery charges resulting from elimination of the annual over-collection mentioned above.

F. Delivery Rate Recommended Implementation Plan-NYC

Given the disparity of Customer impacts and Westchester Governmental Customer contractual considerations as noted above, staff recommends a four-year transition to Con Edison delivery rates for NYC Governmental Customers, beginning in 2011 which is revenue neutral to NYPA. The recommended NYC Governmental Customer rate implementation plan balances the goal that new rates should be more closely aligned with Con Edison rates with the practical consideration of mitigating NYC Governmental Customer impacts given that NYPA's existing delivery rates and Con Edison delivery rates have fallen greatly out of alignment over time.

The Recommended Plan for NYC Governmental Customers reflects the following:

- Phase-in rates by service class (conventional and time of day, high/low tension) with complete alignment to Con Edison's delivery rates by April 2014.
- Systematic increases over a four-year phase-in period of existing service class rates which are set too low as compared to Con Edison delivery rates as follows:
 - In Year 1 rates are set at 75% of Con Edison delivery rate
 - Year 2 at 85%
 - Year 3 at 95%
 - Year 4 at 100%.
- Immediate elimination of NYPA's existing declining blocked delivery rates.
- Immediate elimination of the current \$1.1 million over-collection under existing NYPA delivery rates during year 1 of phase-in.
- Immediate implementation of Con Edison monthly street lighting facilities delivery charges for street lighting (Service Class 80) as the variance between the existing NYPA rate and Con Edison delivery rate is insignificant.

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- To mitigate bill impacts on MTA, Service Class 65 (mostly MTA commuter railroads) rates will be lowered to 100% of PASNY No. 4 immediately.
- With respect to the remaining service classes, with the exception of Service Classes 65 and 80 as noted above, corresponding systematic and gradual decrease of over collecting existing service class rates on a basis that is proportional to the amount of that particular class' over-collection relative to the over collections of all classes.

G. Future Con Edison Delivery Service Rate Increase

For both NYC and Westchester Governmental Customers, annual increases in Con Edison delivery charges on a going forward basis will be passed on to Customers by rate component directly as they are charged to NYPA by Con Edison.

H. Re-Examination of Con Edison Delivery Rates

Concurrent with implementation of new delivery rates, NYPA and the Customers intend to initiate communication with Con Edison regarding the cost basis for the existing PASNY No. 4 rates with the intent for Con Edison to develop a specific MTA rate. It is expected that Con Edison will file its next delivery rate case by 2012 for implementation in 2013, allowing ample time for NYPA and the Customers to conduct an investigation to better understand Con Edison delivery rates to NYPA. In 2013 and 2014, the third and fourth years of the delivery phase-in period, it is expected that the phase-in of rates will be modified to reflect the then newly approved Con Edison delivery rates.

I. Crediting Customers Delivery Over Collections

Staff recommends crediting Customers with the accumulated balance in over-collections of Con Edison delivery charges commencing no later than the requested July 2011 effective date of redesigned delivery rates. Credits would be provided over twelve months to those Customers whose existing delivery rates are set too high as compared to the comparable Con Edison delivery charge. Each Customer's delivery credit would be determined using the proposed refund allocation percentages shown on Schedule 2 applied to the total accumulated over-collection balance. The basis for this schedule is the Black & Veatch rate study that utilized NYPA and Con Edison delivery rates effective April 2010 and historical calendar year 2009 billing determinants to calculate annual delivery revenue collections under existing NYPA delivery rates as compared to those that would result under Con Edison delivery rates. The allocation percentage for each Customer is determined to be that Customer's annual over-collection relative to the sum of annual over-collections for all Customer classes whose delivery rates are set too high.

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J. True-up of Delivery Charges

Commencing with Year 1 of the phase-in plan, delivery charges billed by NYPA to Customers will be subject to annual true-up with delivery charges billed by Con Edison to NYPA. The true-up will take place each July for the prior 12-month period ending in April.

Over/under recovery of Con Edison delivery charges from Customers is also, in part, caused by discrepancies between the estimated billing, street lighting proration and minimum billing procedures of NYPA and Con Edison. Beginning with the January billing cycle, NYPA began to harmonize its procedures for estimating Customer usage (when actual meter reads are unavailable) with those of Con Edison. In late 2010, street lighting proration was corrected. Further, NYPA intends on modifying its Customer billing system in 2011 in order to implement minimum billing consistent with the minimum billing provisions of Con Edison.

Since changes in delivery service rates will in large part be phased-in over four years and there are planned changes in billing determinants, an over/under collection collar of \$5 million will be implemented. When delivery revenue over/under collections are outside the \$5 million collar, a refund or surcharge will be passed on to Customers as soon as practical. Delivery revenue over/under collections within the collar thresholds will be subject to the annual true-up cycle.

K. NYPA Service Tariff Revisions

NYPA will conform current Service Tariff Nos. 100 and 200 to be consistent with the final redesigned production and delivery rates, plus make other tariff changes as needed for proper organization and to enhance clarity.

Rate Redesign Exhibit A - Schedule I
Estimated Customer Bill Impacts

Redesigned Production Rates: 1 Year Implementation for All Customers
Redesigned Delivery Rates: 4 Year Implementation NYC, 1 Year Westchester

Customer Description	(A)		(B)		(C)		(D)		(E)		(F)				(G)	(H)	(I)						
	Production		Delivery		Combined		Production		Delivery		Yr 1		Yr 1		Yr 2		Yr 3		Yr 4				
	Production	Delivery	Production	Delivery	Combined	Production	Delivery	Production	Delivery	Combined	Yr 1	Yr 1	Yr 1	Yr 1	Yr 2	Yr 2	Yr 2	Yr 2	Yr 3	Yr 3	Yr 3	Yr 4	Yr 4
											Indicated Rate Increase / (Decrease) \$												
The City of New York ex DEP (SC 98)	\$ 326,602,293	\$ 222,161,578	\$ 548,763,871			\$ (3,436,579)	\$ (12,969,996)	\$ (16,406,575)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)	\$ (3,102,877)	\$ (2,661,344)
The City of New York DEP (SC 98)	47,650,721	3,986,067	51,636,788			(498,951)	5,648,641	5,149,691	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628	1,284,628
The City of New York Total	\$ 374,253,014	\$ 226,147,645	\$ 600,400,659			\$ (3,935,530)	\$ (7,321,355)	\$ (11,256,885)	\$ (1,376,717)	\$ (1,818,249)	\$ (1,376,717)	\$ (1,818,249)	\$ (1,376,717)	\$ (1,818,249)	\$ (1,376,717)	\$ (1,818,249)	\$ (1,376,717)	\$ (1,818,249)	\$ (1,376,717)	\$ (1,818,249)	\$ (1,376,717)	\$ (1,818,249)	
Metropolitan Transportation Authority	\$ 266,868,853	\$ 90,659,433	\$ 357,528,286			\$ (4,094,378)	\$ 21,508,781	\$ 17,414,404	\$ 6,357,498	\$ 6,501,770	\$ 6,357,498	\$ 6,501,770	\$ 6,357,498	\$ 6,501,770	\$ 6,357,498	\$ 6,501,770	\$ 6,357,498	\$ 6,501,770	\$ 6,357,498	\$ 6,501,770	\$ 6,357,498	\$ 6,501,770	
NYC Housing Authority	105,412,002	62,049,116	167,461,118			4,269,247	(7,865,903)	(3,596,656)	(2,617,146)	(2,703,515)	(2,617,146)	(2,703,515)	(2,617,146)	(2,703,515)	(2,617,146)	(2,703,515)	(2,617,146)	(2,703,515)	(2,617,146)	(2,703,515)	(2,617,146)	(2,703,515)	
Port Authority of NY & NJ	55,544,922	25,859,723	81,404,645			2,254,031	(4,150,344)	(1,896,313)	(1,210,353)	(892,183)	(1,210,353)	(892,183)	(1,210,353)	(892,183)	(1,210,353)	(892,183)	(1,210,353)	(892,183)	(1,210,353)	(892,183)	(1,210,353)	(892,183)	
State of New York Office of General Svcs	27,078,073	17,341,378	44,419,450			1,150,965	(2,407,584)	(1,256,619)	(842,618)	(779,738)	(842,618)	(779,738)	(842,618)	(779,738)	(842,618)	(779,738)	(842,618)	(779,738)	(842,618)	(779,738)	(842,618)	(779,738)	
Convention Center Operating Corp	3,729,676	2,475,109	6,204,785			226,425	(387,328)	(160,903)	(191,613)	(207,947)	(191,613)	(207,947)	(191,613)	(207,947)	(191,613)	(207,947)	(191,613)	(207,947)	(191,613)	(207,947)	(191,613)	(207,947)	
United Nations Development Corp	2,602,600	1,777,884	4,380,483			33,822	(210,927)	(177,105)	(53,311)	(45,333)	(53,311)	(45,333)	(53,311)	(45,333)	(53,311)	(45,333)	(53,311)	(45,333)	(53,311)	(45,333)	(53,311)	(45,333)	
New York Power Authority	718,119	587,710	1,305,828			24,738	(81,024)	(56,286)	(27,423)	(12,988)	(27,423)	(12,988)	(27,423)	(12,988)	(27,423)	(12,988)	(27,423)	(12,988)	(27,423)	(12,988)	(27,423)	(12,988)	
Hudson River Park Trust	733,334	448,269	1,181,604			24,840	(66,564)	(41,724)	(20,321)	(22,176)	(20,321)	(22,176)	(20,321)	(22,176)	(20,321)	(22,176)	(20,321)	(22,176)	(20,321)	(22,176)	(20,321)	(22,176)	
Roosevelt Island Operating Corp	380,130	233,198	613,328			(9,558)	(61,788)	(71,346)	(9,417)	(10,277)	(9,417)	(10,277)	(9,417)	(10,277)	(9,417)	(10,277)	(9,417)	(10,277)	(9,417)	(10,277)	(9,417)	(10,277)	
Battery Park City	166,925	195,377	362,302			(15,259)	(15,654)	(30,913)	(7,679)	(8,380)	(7,679)	(8,380)	(7,679)	(8,380)	(7,679)	(8,380)	(7,679)	(8,380)	(7,679)	(8,380)	(7,679)	(8,380)	
Empire State Development Corporation	23,873	26,480	50,352			(2,182)	(2,219)	(4,401)	(900)	(982)	(900)	(982)	(900)	(982)	(900)	(982)	(900)	(982)	(900)	(982)	(900)	(982)	
Total NYC	\$ 837,511,520	\$ 427,801,321	\$ 1,265,312,841			\$ (72,838)	\$ (1,061,909)	\$ (1,134,747)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	
Westchester County Entities	\$ 23,709,058	\$ 31,414,078	\$ 55,123,136			\$ (772,742)	\$ (5,602,729)	\$ (6,375,472)															
Westchester County	13,216,829	9,818,203	23,035,032			817,439	(2,885,777)	(2,068,339)															
Total Westchester	\$ 36,925,887	\$ 41,232,281	\$ 78,158,168			\$ 44,697	\$ (8,488,507)	\$ (8,443,810)															
Total Governmental Customers	\$ 874,437,407	\$ 469,033,602	\$ 1,343,471,009			\$ (28,141)	\$ (9,550,416)	\$ (9,578,557)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	

Note 1: Existing production and delivery charges are based on approved NYPA January 2011 rates and 2009 billing determinants.
Note 2: Redesigned production rates are fully implemented in Year 1 and are based on a consensus developed cost allocation approach with customers.
Note 3: Redesigned delivery rates transition to Con Ed PASNY No. 4 rates over a 4 year period for NYC customers and in Year 1 for Westchester customers.

Rate Redesign Exhibit A - Schedule 2
Delivery Revenue Comparison

Governmental Customer Delivery Revenue
ConEd PASNY No. 4 vs. Existing NYPA
2009 Billing Determinants

Customer	ConEd PASNY No. 4 Rates (April 2010)		NYPA Delivery Rates (April 2010)		Indicated Rate Increase / (Decrease) ConEd vs. NYPA	Over Collecting Customers Only \$	Over Collecting Customers Only %
	Total		Total				
The City of New York ex DEP	\$ 201,743,566	\$	222,161,578	\$	(20,418,012) ✓	\$ (20,418,012)	36.44%
DEP (SC98)	\$ 12,846,277	\$	3,986,067	\$	8,860,211		
Total City of New York	\$ 214,589,843	\$	226,147,645	\$	(11,557,802)		
Metropolitan Transportation Authority	128,273,712		90,659,433		37,614,278		
NYC Housing Authority	47,457,989		62,049,116		(14,591,127) ✓	\$ (14,591,127)	26.04%
Port Authority of NY & NJ	19,233,343		25,859,723		(6,626,380) ✓	\$ (6,626,380)	11.83%
State of New York Office of General Svcs	12,987,429		17,341,378		(4,353,949) ✓	\$ (4,353,949)	7.77%
Convention Center Operating Corp.	1,611,262		2,475,109		(863,847) ✓	\$ (863,847)	1.54%
United Nations Development Corp	1,444,026		1,777,884		(333,858) ✓	\$ (333,858)	0.60%
Hudson River Park Trust	459,283		587,710		(128,427) ✓	\$ (128,427)	0.23%
New York Power Authority	327,678		448,269		(120,591) ✓	\$ (120,591)	0.22%
Roosevelt Island Operating Corp	173,672		233,198		(59,526) ✓	\$ (59,526)	0.11%
Battery Park City	159,307		195,377		(36,070) ✓	\$ (36,070)	0.06%
Empire State Development Corporation	21,868		26,480		(4,612) ✓	\$ (4,612)	0.01%
Westchester County Entities	25,811,348		31,414,078		(5,602,729) ✓	\$ (5,602,729)	10.00%
Westchester County	6,932,425		9,818,203		(2,885,777) ✓	\$ (2,885,777)	5.15%
Total	\$ 459,483,186	\$	469,033,602	\$	(9,550,416)	\$ (56,024,905)	100%

✓ Indicates customer delivery charge over collection