

Date: September 29, 2015

To: THE TRUSTEES

From: THE PRESIDENT and CHIEF EXECUTIVE OFFICER

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

SUMMARY

The Trustees are requested to approve a Notice of Proposed Rulemaking (“NOPR”) to increase the production rates by 10.64% as compared to 2015 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”). This year, the Authority will extend the 45-day statutory comment period concerning this proposed rate action to February 1, 2016.

Further, since the proposed increase includes an increase to the Fixed Costs by more than 2%, a public forum will be held in accordance with Authority policy. Trustee authorization is also requested to direct the Corporate Secretary to provide all appropriate notice for such public forum.

Upon closure of the extended 45-day statutory comment period concerning this proposed rate action, Authority staff will take into consideration concerns that have been raised and return to the Trustees at their meeting in March 2016 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 March 1, 2017; and allow the Authority to apply an Energy Charge Adjustment (“ECA”) mechanism to the Customers’ bills each month.

The current 2015 base production rates were adopted by the Trustees at their March 26, 2015 meeting when they approved a 12.85% decrease over 2014 rates. Staff is now proposing a 2016 rate increase which is largely due to expected increases over 2015 rates in energy and capacity prices that 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%, 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 2016 Fixed Costs component. Trustee authorization is also requested to direct the Corporate Secretary to provide all appropriate notice for such public forum.

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 2016 COS for the Westchester Customers is \$36.72 million, compared to \$33.15 million in 2015.

The Variable Costs component is projected to increase from \$30.58 million to \$34.04 million, an approximate \$3.46 million or 11.3% increase as compared to the Final 2015 COS. The primary cost element, energy purchases, is \$27.39 million and accounts for 74.6% 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 2016 prices for these two zones are expected to be higher than those that were projected for 2015 and incorporated into the rates that are currently in effect.

As part of the proposed production rate increase, the Fixed Costs component is expected to increase from \$2.57 million to \$2.68 million, an approximate \$108,000 or 4.2% increase as compared to the Final 2015 COS. The proposed net increase is mainly due to a \$234,000 increase in Operations & Maintenance (“O&M”) costs related to painting and repairing of the tainter gate at the Crescent Plant, a small hydro facility. This increase in O&M is partially offset by a \$140,000 decrease in Capital Costs related to lower fixed debt and zero variable debt in calendar year 2016. Pursuant to the Authority’s policies and procedures, this increase in Fixed Cost is subject to a public forum.

Applying current rates to the 2016 Customers sales forecast results in projected revenues of \$33.19 million, representing an under-collection of \$3.53 million from the Customers. Therefore, staff is proposing a 10.64% increase in base production rates to reflect the rise in the purchased energy costs contained in the currently effective 2015 rates.

Under SAPA, there is a 45-day public comment period on the rate change. The Authority will extend the public comment period to February 1, 2016 to allow for additional time to review and submit comments regarding the proposed increase. At the close of the comment period, Authority staff will review any comments which have been filed and address any concerns raised. If warranted, staff will make any necessary changes to the proposed rates and return to the Trustees at their March 2016 meeting to request approval of the final rate modification, to become effective with the March 2016 billing period. Subsequent to the approval of this proposed action by the Trustees, the Final Staff Report containing the Final 2016 COS will be made available to the Customers.

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 and Energy Market Analysis and the Director – Financial Planning 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 Senior Vice President – Economic Development and Energy Efficiency, 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 Authority projects an 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 Senior Vice President – Economic Development and Energy Efficiency, or his designee, be, and hereby is, authorized to issue written notice of this proposed action to the affected Customers; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file such notice 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 proposed rate increase, including those notices required for a public forum, and proposed tariff modification; and be it further

RESOLVED, That the 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 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.