

December 16, 2014

**MEMORANDUM 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 8.00% as compared to 2014 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”).

**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, 2016; and allow the Authority to apply an Energy Charge Adjustment (“ECA”) mechanism to the Customers’ bills each month.

The current 2014 base production rates were adopted by the Trustees at their January 28, 2014 meeting, when they approved a 12.67% increase over 2013 rates. Although the final 2014 COS projected a 16.38% rate increase, staff requested to keep the initial 12.67% increase in production rates in order to not exceed NYPA’s initial SAPA notice. Staff is now proposing a 2015 rate increase, which is largely due to expected increases in energy prices for electricity purchased from the NYISO market to serve these customers over 2014 rates. While total production costs are expected to increase, the Fixed Costs component is decreasing. Since this proposal calls for no increase to the Fixed Costs component, in accordance with the Authority’s policies and procedures, no public forum will be held.

## 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 2015 COS for the Westchester Customers is \$41.08 million.

The Variable Costs component is increasing as compared to the Variable Costs embedded in the Final 2014 COS. The primary cost element, energy purchases, is \$32.48 million and accounts for 79% of the total production costs. Even though 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 New York Independent System Operator Zones "G" (Hudson Valley) and "A" (Western New York)). The projected 2015 prices for these zones are expected to be higher than those that were projected for 2014 and incorporated into the rates that are currently in effect.

The second largest component, capacity purchases, is \$6.36 million and accounts for 15% of total production costs. The projected 2015 capacity costs are expected to decrease by approximately 11.6% as compared to the capacity costs that were incorporated into the rates that are currently in effect.

Based on the Preliminary 2015 COS, Fixed Costs are decreasing by \$0.51 million as compared to the Fixed Costs included in the Final 2014 COS. The main driver to the Fixed Costs decrease is the reduction in Capital Costs (\$0.69 million) due to lower debt service requirements associated with the small hydroelectric facilities. Slightly offsetting this decrease is a combined \$0.19 increase in site O&M and in headquarters Shared Services.

Based on preliminary analyses, the current 2014 rates, in combination with the 2015 Customer sales forecast, show that the projected revenues would be \$38.04 million, resulting in an under-collection of \$3.04 million from the Customers. Therefore, staff is proposing an 8.00% increase in base production rates to cover the \$3.04 million shortfall, which reflects the rise in the purchased energy costs as contained in the currently effective 2014 rates.

Under the Agreements, the Authority must provide at least 30 days' notice to the Customers of any proposed modification of rates and the proposed modification is subject to their review and comment. Notification of the rate action was transmitted to the Customers on November 14, 2014. Subsequent to the approval of this proposed action by the Trustees, the Customers will be mailed the Staff Report containing the Preliminary 2015 COS.

Under SAPA, there is a 45-day comment period. After written comments are filed, Authority staff will review them and address any concerns raised. Staff will make any necessary changes to the proposed rates and return to the Trustees at their March 2015 meeting to request final approval of the rate modification, to become effective with the March 2015 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 and Energy Market Analysis and the Vice President – 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 proposes 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 and proposed tariff modification; 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.