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BEFORE THE
STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

IN THE MATTER OF A
RATE PROPOSAL FOR ELECTRIC RATES AND CHARGES
SUBMITTED BY TOWN OF MASSENA ELECTRIC DEPARTMENT

PREPARED TESTIMONY OF:

ANDREW J. MCMAHON

SUBMITTED ON BEHALF OF

TOWN OF MASSENA ELECTRIC DEPARTMENT

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INTRODUCTION

Q. PLEASE STATE YOUR FULL NAME, ADDRESS, AND OCCUPATION.

A. My name is Andrew J. McMahon. I am the superintendent of the Town of Massena Electric Department. My office address is 71 East Hatfield Street, Massena, New York 13662.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND BUSINESS EXPERIENCE?

A. I received a Bachelor of Science degree in Electrical Engineering from Union College (Schenectady, New York). After college I worked in electrical maintenance and planning for the New York Power Authority from 1990-97. I then worked in operations and electrical distribution at an E.I. DuPont factory in Camden, South Carolina from 1997-2000. I then worked for Duke Energy North America on gas-fired merchant power projects, first in technical support and later in project development in their Houston office. I then became an Asset Manager for Duke on a combined cycle power plant project in Nevada. These roles occurred between 2000 and 2002 and involved interaction with community developers, public service commissions, and FERC and state governments in the various capacities. In October 2002, I was appointed by the Town of Massena Electric Utility Board to serve as their Superintendent. I continue to serve in this capacity.

Q. WERE YOUR TESTIMONY AND EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes, they were.

Q. PLEASE DESCRIBE THE TOWN OF MASSENA ELECTRIC DEPARTMENT?

A. The Town of Massena Electric Department (MED) is a municipal electric utility owned by the Town of Massena. The Town of Massena is located in St. Lawrence County in the northernmost part of New York State. MED was created by a resolution of the Massena Town Board. The resolution was approved May 30, 1974, pursuant to a mandatory voter referendum. After the referendum, the Town actively sought to purchase the electric distribution facilities in the town from the Niagara Mohawk Power Corporation. After years of negotiations and litigation the Town of Massena purchased the electric distribution system and began operation as a full requirements customer of the New York Power Authority (NYPA). MED now serves customers in the Town of Massena and portions of the Towns of Brasher, Louisville, Norfolk and Stockholm which are all in St. Lawrence County, New York.

MED is governed by a five person administrative board known as the "Massena Electric Utility Board" (MEUB). Members of the MEUB are appointed to five year terms by the Town Board of the Town of Massena. The MEUB appoints a Superintendent to serve as the General Manager of the utility.

The MED system covers 131 square miles with more than 9,000 customers. Our service reliability is among the highest nationally, as determined by leading indicators such as SAIDI and SAIFI. Our environmental commitment and commitment to the betterment of our community are also unquestioned. In 1981 when MED first took over the system it had 21 employees and now has 22 full time employees who are dedicated to providing our customers with the most reliable energy at the lowest possible cost with exceptional customer service.

SCOPE OF TESTIMONY

Q. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The scope of my testimony is to describe why MED needs to file for a rate change at this time and the reason for the changes in rate design being proposed.

BACKGROUND

Q. COULD YOU FIRST PLEASE DESCRIBE THE RATE HISTORY OF MED SINCE 1981?

A. Yes. When MED was formed and became a full requirements customer of NYPA, the lower cost of power purchased from NYPA allowed MED to reduce rates at that time by 25 percent, as compared to Niagara Mohawk Power Corporation's rates. In anticipation of signing a power supply contract with the New York State Electric & Gas Corporation (NYSEG), Massena reduced its rates by another 16

percent in 1991. In 1992 Massena began taking power from NYSEG under a 10-year contract for incremental power. At that time, MED came under the ratemaking jurisdiction of the New York State Public Service Commission. In 1998, MED reduced its rates again by approximately 3.5 percent. This was made possible by a reduction in Massena's long-term debt balance when the original bonds were paid off.

REVENUE REQUIREMENT

Q. WHY IS IT NECESSSARY FOR MED TO FILE FOR INCREASED RATES AT THIS TIME?

A. Basic finances have shown that the system has produced very little net income over the last four years -averaging only $30,000 per year. Our expenses have continued to grow over the years and will not likely go down. These expenses include materials and supplies, maintenance, NERC compliance, pension and health insurance. For 2013, on a non-normalized basis the system had a loss of almost $224,000. For 2014, before normalization the system had a loss of just over $85,000. As expenses will only continue to grow in the future, MED believes that the time has come to increase rates.

RATE DESIGN

Q. BESIDES THE RATE INCREASE, ARE THERE ANY OTHER ISSUES THAT MED BELIEVES NEED TO BE ADDRESSED AT THIS TIME?

A. Yes. Our usage and particularly our system peak have grown substantially over the past few years. Since 2002 our system peak has grown by over 25% and our load has grown by approximately 10%. We are a winter peaking utility and the aforementioned growth in both peak and system load is primarily seen in these periods. Given the system growth, the MEUB commissioned a load research study and cost of service study to determine which service classifications are contributing to growth in peak demand. Mr. Frank Radigan of the Hudson River Energy Group is also testifying in this proceeding and he will present the results of that study. The summary of his analysis shows that the greatest contributor to peak demand growth is electric heating related to Service Classification No. 1 – Residential Service. This service class represents almost 60% of all sales made on the system. Over 65% of the sales made to this service classification are made during the six month winter period (November – April).

MED generally peaks in the evening hours with another near peak in the early morning hours. For a winter peaking utility this generally indicates a heating load. An analysis of peak demand versus the most important weather variables (temperature and wind) indicates that the single largest variable on the system which drives demand is heating load. This is not surprising given the price of electricity for MED customers versus other home heating options. During January 2014, MED was selling electricity to residential customers at approximately 5.5 cents per kWh. On a $/MMBTU basis this equates to $16.13 per MMBTU. During that same month NYSERDA reports that the price of oil in

Massena was approximately $4.00 per Gallon or $28.37 per MMBTU. This means that MED sells its product at a 43% discount to its alternate fuel. Compared to propane the discount would be 60%.

At the current time the cost of power to customers is charged on an average basis. However, MED's sources of supply are very different. We obtain approximately 72% of our energy from NYPA and 28% of our energy from the New York Municipal Power Agency. Because the NYPA power is from Niagara Falls, a hydroelectric power plant built in the 1950s, the cost is very inexpensive with an all-in cost of approximately 1.6 cents per kWh. The NYMPA power is purchased on the wholesale market and for 2013 it averaged 6.7 cents per kWh. During 2013, NYPA power cost $2.6 million and the NYMPA power cost $5.4 million. Since the NYMPA power is predominately purchased during the winter to meet our peak power needs we are buying this power for customers that are using it to heat their homes. With our retail cost of service rate at approximately 3.7 cents and incremental power 6.7 cents; it is costing MED 10.4 cents per kWh to serve the next kilowatt of heating load. However, MED is only charging 5.5 cents due to the previously noted "averaging" methodology. If MED charged customers who use electricity for heat on an incremental basis the charge would have been 8% more than oil last January, instead of 43% less. This is a more reflective price signal.

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Succinctly then, the current problem that MED faces is that under the current pricing framework MED is not charging prices that are equitable for all customers. Given our resource mix, the average basis methodology artificially depresses the true cost of incremental power. This methodology gives discounts to heating customers when no such discount should exist. This artificial discount thereby further incents customers to use electricity to meet their heating needs which only accentuates our system peaking problem.

Q. PLEASE CONTINUE.

A. Mr. Radigan has developed a rate design solution that addresses this problem and he has proposed a solution that will direct the cost of the NYMPA power (i.e. the incremental power) to those who are using it. His solution does result in some rate impacts that are large in some cases (e.g. 45%). While this may seem harsh, one must recognize that these customers who use electricity for heating purposes are being subsidized by all other customers on the system. That means that the majority of our customers are paying a higher rate so that these heating customers can get an artificial discount. As MED serves all of its customers, the MEUB believes it has a responsibility to rectify this situation and make our rates as equitable as possible to all parties. Management at MED and the MEUB is aware of the impacts this may have on heating customers. As such, we propose to phase in the rate design solution over three years to partially ameliorate the rate impacts.

RESETORING ENERGY VISION

Q. WHAT ABOUT RESTORING THE ENERGY VISION (REV)?

All parties involved in the REV proceeding acknowledge that the proposal represents a significant shift in the utility business model. It is important to recognize the long standing distinction between investor owned utilities and municipally owned and operated utilities. Where investor owned utilities primarily serve their shareholder/owners, municipalities have always had customer service as their only business motivation. This difference in motivation has historically created a difference in operations and will likely create a difference going forward no matter how REV is developed. It is evident that customers will want more choice and generally a greater role for renewables in their personal portfolio. Of course power from renewable resources already accounts for upwards of 2/3rds of MED's energy. While MED has had 54 kW of roof-top solar installed in recent years we are prepared to accept more into our system.

MED also has had a Water Heater Incentive Program (WHIP) since the late 1980's. This is the type of program envisioned by REV that was enacted long ago by the MEUB because it already fit our business model. The WHIP system can shave anywhere from 0.5MW to 0.75MW from our monthly peak and improves our overall system load factor.

We are continuing to examine ways to increase the use of distributed generation but our prices are so much lower than the investor-owned utilities that the same level of customer motivation is not present.

Q. WHAT ABOUT ENERGY EFFICIENCY AND SUSTAINABILITY?

The MEUB has long had an interest in the success of our community and environment. In the last 10 years we have invested about $1,700,000 in energy efficiency and sustainability projects. These projects include 8 solar installations (referenced above), development of a proposed small hydroelectric project, deeply discounted home energy audits, and a geothermal heating system for our offices. MED has also worked with Alcoa and NYPA in recent years on an energy efficiency program centered on trees and LED lights in low/moderate income neighborhoods that will promote energy efficiency and community beautification. It is worth noting that all of these programs have been implemented utilizing reserves without an efficiency adder or other surcharge.

Q. ANYTHING ELSE?

Sure. We were one of the first municipalities in New York State to allow solar. As such, we were one of the first municipalities to initiate a net metering tariff. While the labor and legal fees involved in developing this tariff will not be recovered any time soon from the deployment of renewables in our system, the MEUB strongly believes that it is an important option to give our customers.

One of the more progressive ideas we are working on now is with the local gas distribution company (Saint Lawrence Gas – SLG). We are hoping to encourage customers who have abandoned their gas service in recent years to switch back to gas as their heating source.

Of course encouraging customers to return to natural gas, or utilize more solar, or simply conserve will erode revenues. That is why it is important to increase our customer charge. Using industry standard rate making principles we believe our customer charge should be at least $12.50. As part of this proposal we are requesting raising the customer charge to $8 from $5 over a 3 year phase in. This is still below St. Lawrence Gas and our neighboring electric providers, National Grid $17.50 and New York State Electric and Gas. The MEUB believes that increasing the customer charge by at least $3 per month over the next 3 years is not only proper rate making but prudent given the desired reduction in sales.

CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.