Received: 05/29/2015

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:

FRANK W. RADIGAN

SUBMITTED ON BEHALF OF

TOWN OF MASSENA ELECTRIC DEPARTMENT

May 29, 2015

Received: 05/29/2015

INTRODUCTION

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

A. My name is Frank W. Radigan. I am a principal in the Hudson River Energy Group, a consulting firm providing services in electric, gas and water utility industry matters, and specializing in the fields of rates, planning and utility economics. My office address is 237 Schoolhouse Road, Albany, New York 12203.

Q. PLEASE DESCRIBE THE HUDSON RIVER ENERGY GROUP.

A. The Hudson River Energy Group ("HREG") is an engineering consulting firm specializing in the fields of rates, planning, economics and utility operations for the electric, natural gas, steam and water utility industries. HREG was founded in 1998 and has served a wide variety of clients including municipal utilities, government agencies, state commissions, consumer advocates, law firms, industrial companies, power companies, and environmental organizations. HREG conducts rate design and cost of service studies, and designs performance based rate plans. HREG also assists clients in handling the complexities of deregulation and restructuring, including Open Access Transmission Tariff pricing, unbundling of rates, resource adequacy, transmission planning policies and power supply. During HREG's existence, we have proffered our expertise before the Federal Energy Regulatory Commission ("FERC") and a large number of utility commissions across the country.

Received: 05/29/2015

Q. PLEASE SUMMARIZE YOUR EDUCATION AND BUSINESS EXPERIENCE?

A. I received a Bachelor of Science degree in Chemical Engineering from Clarkson College of Technology in Potsdam, New York (now known as "Clarkson University") in 1981. I received a Certificate in Regulatory Economics from the State University of New York at Albany in 1990. From 1981 through February 1997, I served on the Staff of the New York State Public Service Commission ("NYPSC") in the Rates and System Planning sections of the Power Division. My responsibilities included, resource planning and the analysis of rates, depreciation rates and tariffs of electric, gas, water and steam utilities in the state. These duties also encompassed rate design, performing embedded and marginal cost of service studies, as well as depreciation studies.

Before leaving NYPSC, I was responsible for directing all engineering staff during major proceedings, including those relating to rates, integrated resource planning and environmental impact studies. In February 1997, I left NYPSC and joined the firm of Louis Berger & Associates as a Senior Energy Consultant. In December 1998, I formed my own company.

In my 33 years of experience, I have testified as an expert witness in utility rate proceedings on more than 100 occasions before various utility regulatory bodies, including: the Arizona Corporation Commission, the Connecticut Department of Public Utility Control, the Delaware Public Service Commission, the Illinois

Received: 05/29/2015

Commerce Commission, the Maryland Public Service Commission, the Massachusetts Department of Telecommunications and Energy, the Michigan Public Service Commission, the Mississippi Public Service Commission, NYPSC, the New York State Department of Taxation and Finance, the Nevada Public Utilities Commission, the North Carolina Utilities Commission, the Pennsylvania Public Utility Commission, the Public Service Commission of the District of Columbia, the Public Utilities Commission of Ohio, the Rhode Island Public Utilities Commission, the Vermont Public Service Board, and the FERC. Currently, I advise a variety of regulatory commissions, consumer advocates, municipal utilities, and industrial customers concerning rate matters, including wholesale electricity rates and electric transmission rates. A copy of my resume is attached as Exhibit 1.

Q. FOR WHOM ARE YOU APPEARING?

A. I am testifying on behalf of the Town of Massena Electric Department.

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

A. Yes, they were.

<u>SCOPE OF TESTIMONY</u>

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

Received: 05/29/2015

A. I have been asked to describe the need for an increase in electric delivery rates for Massena in order to meet its operating expenses and to fund infrastructure investments so that it can continue to provide low-cost and reliable service to its customers. Specifically, I will present the Massena revenue requirement and proposed re-design of its rates. I will sponsor the historical financial information that is required under the 1977 Policy Statement on Test Years. I sponsor the following exhibits.

Exhibit 1 - Resume of Frank Radigan
Exhibit 2 - Historic and Forecast Income Statement and Rate of Return
Exhibit 3 - Explanation of Adjustments
Exhibit 4 - Historic Balance Sheets
Exhibit 5 - Historic Income Statements
Exhibit 6 - Revenues by Rate Class and kWh Sales
Exhibit 7 - Number of Customers
Exhibit 8 - Capital Structure and Rate of Return
Exhibit 9 - Rate Base
Exhibit 10 - Factor of Adjustment
Exhibit 11 - Comparison of Present and Proposed Rates
Exhibit 12 - Comparison of Monthly Bills – Rate Increase Only
Exhibit 13 - Comparison of Monthly Bills – With New Rate Design and Rates
Exhibit 14 - Comparison of Annual Bills
Exhibit 15 - Calculation of Weather Normalization and Customer Growth Adjustment
Exhibit 16 - Calculation of Rate Year Plant Balances
Exhibit 17 - Calculation of Engstrom Substation Ratemaking Offset
Exhibit 18 - Commission Order in Case 97-E-1387

Received: 05/29/2015

<u>SUMMARY</u>

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Since Massena began operations in 1981 the only direction that base electric rates have taken has been downward. Initially, rates were reduced when it took over the system from Niagara Mohawk. Is was then able to reduce rates twice in the 1990s due to lower cost power supply and the fact that it paid off its initial debt load. Over the past five years, however, Massena has seen its net income erode and it is now losing money for the first time in its history. The reason for this is increased operating expenses for such items as labor, health insurance premiums and pension obligations. In fiscal year 2014, Massena had a net operating income of ($85,423). As costs increase due to inflation, wage rates, health insurance and pension obligations, Massena sees no choice but to request an increase in delivery revenues. As such, setting the revenue requirement is the first major factor to be considered in the rate case.

The second major factor is rate design and the need to realign the rate structure that customers pay. In 2014, retail revenues from electric sales to residential customers were approximately $8.3 million on sales of approximately 121 million kWh. This equates to an all-in rate of 6.8 cents per kWh and an average usage of 1,223 kWh per month. This compares to a statewide average cost of approximately 20 cents per kWh and a monthly average usage of 600 kWh per month. At 6.8 cents per kWh it is less expensive to heat a home using electricity than fuel oil. A review of monthly sales and peak usage data indicates that

Received: 05/29/2015

customers have made that choice and on Massena's system residential sales in January 2014 were 2.4 times that of July 2014. Peak demand follows this sales pattern and the peak in January 2014 was 50.6 MW compared to 30.3 MW in July 2014. This extra demand and energy is met from supplemental purchases above and beyond Massena's hydroelectric allocation form the New York Power Authority. While the cost of hydroelectric power (energy, capacity, transmission and certain charges from the NYISO) is cheap at 2.4 cents per kWh the cost of supplemental power is not at 7.6 cents per kWh. The problem, however, is that under the current rate structure Massena must charge for purchased power at an average rate of 4.2 cents per kWh. This fact together with the knowledge that increased winter usage is only done by a certain few customers causes a cross subsidization to exist where all customers are charged for that higher cost of supplemental power that is only used by a few. In the rate design section of my testimony I will discuss this issue in more detail and propose a solution that directs the higher cost of supplemental power to those customers that use it. It is the hope of Massena that this price signal will serve to encourage customers to conserve electricity and look for the heating source that is most economically attractive based on cost causation and not cross subsidization.

REVENUE REQUIREMENT

Q. PLEASE DISCUSS EXHIBIT 2.

A. Exhibit 2 is the historic and forecast income with the rate of return earned on rate base. Column A is Massena actual income statement for 2014. The utility had

Received: 05/29/2015

operating revenues of approximately $14,009,695 and operating expenses of $14,095,125 for a net operating loss of $85,423. Column B shows three normalizing adjustments to the per books historical information: one to revenues; one to purchased power expenses; and the third to pension expenses. The normalizing for revenues is comprised of four adjustments which will be described in more detail in the explanation of Exhibit 3. The adjustment to purchased power is directly related to the adjustment to revenues and is the purchased power component of the revenue adjustment. The adjustment to pension expense is to reverse a charge that Massena makes for Other Post-Employment Benefits (OPEBs) which are not allowed for ratemaking purposes. Column C is the historic test year after normalization adjustments have been made.

Column D is the list of known changes that will occur to reflect costs in the rate year (the 12 months ending April 2017). There are five adjustments for known changes. The first is for labor costs and this adjustment reflects the full 2.5% increase in labor rates that was given in July 2014 as well as a forecast of a 2.5% annual labor rates through the rate year. Included in this adjustment is a 1% productivity offset which the Commission normally imposes. The second adjustment is for inflation which has been estimated to be 2% based on my review of the recent trend in the Gross Domestic Product Price Index (GDP Index). The GDP Index was forecast between the end of the test year and the rate year with the average rate year GDP Index reflected in the adjustment. This adjustment also reflects the Commission's 1% productivity offset. The third adjustment is to

Received: 05/29/2015

reflect a three year amortization of the rate case expense for processing this rate case. The fourth adjustment reflects the increased depreciation expense of increased gross plant balances between the end of the test year and what will be charged in the rate year at existing rates. The fifth adjustment is to rate base and reflects the change in rate base between the end of the test year and the average of the monthly averages of the net plant balances in the rate year.

Column E reflects a normalized test year updated for known changes before the rate change. As shown on line 18 of this column Massena expects to have a net operating income of ($281,563) in the rate year if no rate increase is allowed. Column F reflects the necessary rate increase to bring Massena's rate of return up to 3.69% which is the weighted average return on a return on surplus of 3.7%. The 3.7% is an estimate of the return that will be allowed by the Commission in this case based on the latest three month average of debt costs for municipals with an A+ rating which is what Massena has. Column F is the income statement for the rate year after the rate increase.

Q. PLEASE EXPLAIN WHAT IS SHOWN ON EXHIBIT 3.

A. Exhibit 3 is a short description of the reasoning behind the adjustments that are reflected on Exhibit 2. Some of these deserve further description. Adjustment a) is comprised of four parts; it reflects an adjustment of the impact of reconciling the Purchased Power Adjustment Clause (PPAC) costs for 2014, elimination of a credit to the PPAC which Massena is currently providing its customers, an

Received: 05/29/2015

adjustment to reflect normal weather and an adjustment to reflect growth in revenues due to an increase in the number of customers. Annual reconciliation of PPAC cost is being requested in this case and the adjustment of $58,849 reflects an under-collection of PPAC revenues in 2014. In order to show that this under recovery of costs will be recovered in the PPAC rather than base rates, an upward adjustment to test year revenues is necessary. Weather normalization and customer growth adjustments were done using the Commission staff's methodology for estimating the revenue impact of such adjustments and the work papers for these adjustments are attached as Exhibit 15. The decreases in purchased power expense, adjustment b), are related to the weather normalization and customer growth adjustments and again use the Commission staff methodology for their development.

The next five adjustments, adjustments c)-g), have already been described. Adjustment h) deserves a detailed explanation. This adjustment reflects two adjustments; one to reflect the change in net plant between the test year and the rate year and a second to reflect lowering of book cost of Massena's second primary substation, the Engstrom substation, that was put into service in 2002. As to changes in net plant, there are two components, normal plant additions and planned plant additions. Normal plant additions were forecast, by account, using the net additions (plant additions less retirements) based on the average of the 2012-2014 period. This was then translated into a monthly plant addition forecast and rate year monthly gross plant and depreciation reserve were developed in

Received: 05/29/2015

order to develop the average of the monthly averages of net plant for the rate year. The forecast depreciation expense was developed from this forecast. Planned plant additions are the one exception to this methodology. Here Massena has already ordered a new bucket truck to be delivered in 2015 and expects to order another in 2016. These trucks are expected to be placed in service in August of each year and the net cost (cost of truck less salvage value of the old one) is expected to be $150,000 each. The development of this forecast is shown on Exhibit 16.

Q. COULD YOU PLEASE DESCRIBE THE RATEMAKING ADJUSTMENT FOR THE ENGSTROM SUBSTATION?

A. Yes. In Massena's last rate proceeding, Case 97-E-1387, the Commission was aware that Massena was anticipating a new substation. The rate case was for a 3.5% rate reduction due to the fact that Massena had finished paying the debt that was incurred in purchasing the system from the Niagara Mohawk Power Corporation. Cash flow of the utility was robust at that time and instead of lowering rates further the Commission allowed Massena a slight increase in its allowed rate of return, 6.35% rather than 6.00%, with the direction that Massena use the extra money to help prefund the cost of the substation. This extra allowance equated to $84,000 per year in revenues and by the time the substation was completed in 2002, this amounted to a $457,000 credit for ratepayers. Massena never booked this money as a credit, however, and has booked the substation at its full cost of $3.9 million and has depreciated the substation based

Received: 05/29/2015

on this value. For ratemaking purposes the credit causes the Gross Plant as well as Depreciation Reserve to be recalculated as well as the annual depreciation expense. These adjustments have been made and result in a reduction to rate base of $317,000 and a decrease in annual depreciation expense of approximately $10,000 per year. This calculation is shown as Exhibit 17 and the Commission Order from Case 97-E-1387 is attached as Exhibit 18.

Q. COULD YOU PLEASE CONTINUE DESCRIBING THE EXHIBITS?

A. Yes, Exhibit 4 is the historic Balance Sheets. Exhibit 5 is the Historic Income Statements and Exhibit 6 is the historic Revenues and Sales by Service Class. Exhibit 7 is the historic number of customers. Each of these Exhibits are for the three year period 2012-2014 and the source data is from the utility's books and records and are reported in its Annual Reports which are on file with the Commission.

Exhibit 8 is Massena's Cost of Capital and Rate of Return. Massena has no debt so the capital structure is made up entirely of customer deposits and net surplus. The rate for customer deposits is estimated to be 0.70% for the rate year which is the 2012 level and higher than the 2014 approved level of 0.13%. The return on net surplus is estimated to be 3.7%. The Town of Massena is rated A+ and a review of historic municipal bond rates is approximately 3.7%. The Commission methodology for rate setting purposes has been to use the most recent three-month average rate at the time the Commission's order is issued. As it is unknown what

Received: 05/29/2015

that will be at this time I have used the 3.7% as a proxy of what the eventual return on surplus will be at the outcome of this case.

Exhibit 9 is the detailed components of the utility's rate base for both the historic period, 2012-2014, and the rate year. As noted above the development of rate year Gross Plant and Depreciation Reserve was developed separately and shown on Exhibit 16.

Exhibit 10 is the historic and forecast factor of adjustment. The historic information of sales and purchases of electricity is for the six-year period 2009-2014. The forecast is the average of the six-year period and this is the method in use by the Commission to develop new factors of adjustment.

Exhibits 11-14 are the proposed rate and bill comparisons. These are more fully described in the section on rate design

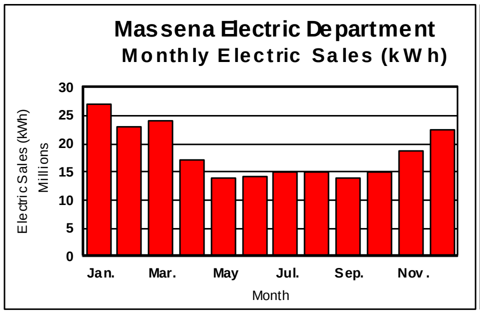
RATE DESIGN

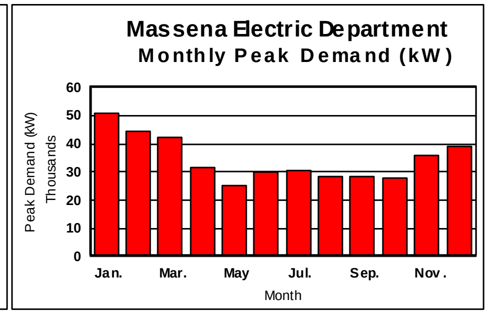
Q. COULD YOU PLEASE DISCUSS THE PROPOSED RATE DESIGN AND REASONS FOR IT?

A. Yes. In order to understand the proposed rate design the most important thing to understand is how and when Massena's customers use electricity, which customers use the most electricity and the cost of the various power purchases

Received: 05/29/2015

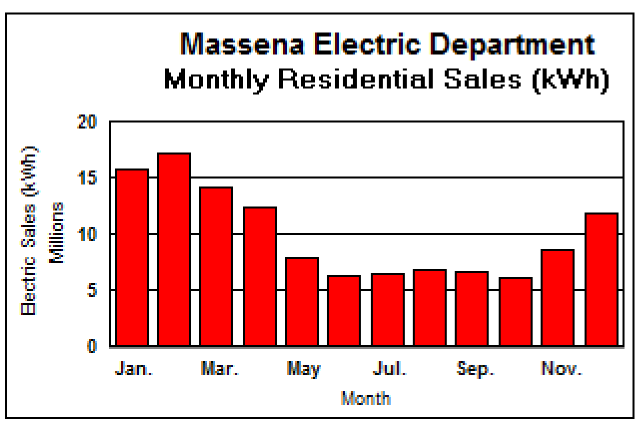
that Massena makes to meet this demand. As to the how and when customers use electricity, the two graphs below illustrate the monthly sales and peaks for 2014.



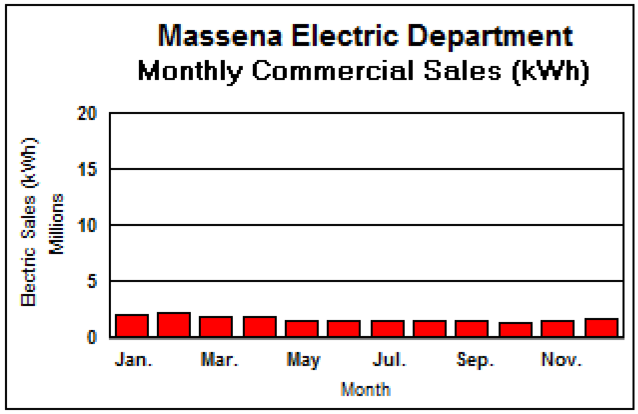


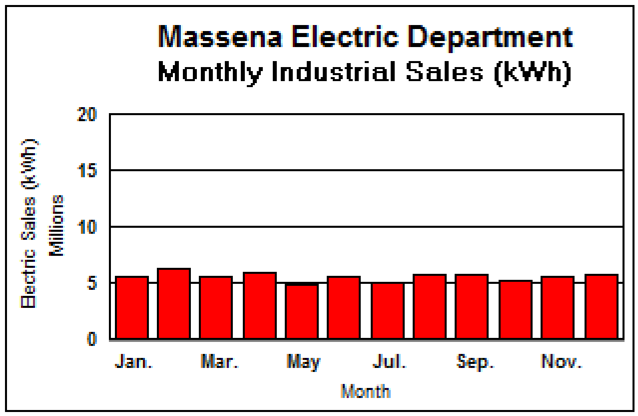
As can be seen from these graphs, the utility is winter peaking. The sales in the summer period are relatively flat with about 14 million kWh sales per month but during the winter period those sales increase to almost 27 million or almost twice the average summer monthly sales. Peak demand follows a similar pattern with summer demand averaging about 28 MW and peak demand at almost 51 MW, an 80% increase.

Not all customers dramatically increase their electric usage during the winter months as illustrated below using sales from 2014.



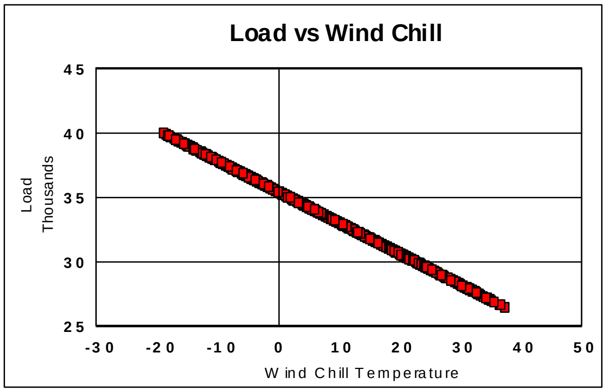
Received: 05/29/2015



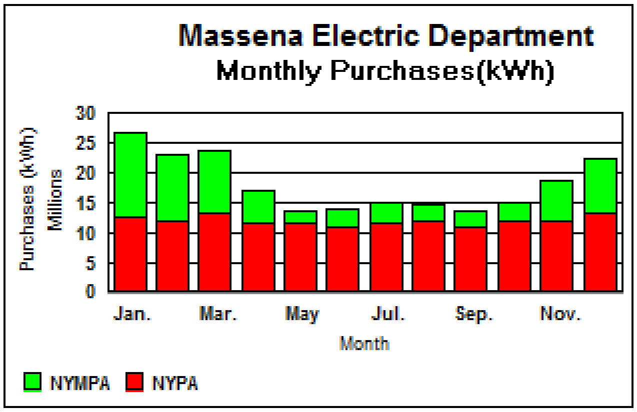


Clearly, the usage and peak demand is being driven by the Residential Service Class during the winter months. The chart below illustrates Massena's Demand versus temperature. Massena's peak generally occurs around 8 am or in the early evening between 6 pm and 8 pm. These times also indicate a utility with a preponderance of residential demand and the fact that the system can peak in the early morning or early evening indicates that heating or cooling demand drives this demand. In this case, because it is winter demand, it is demand for electric heat.

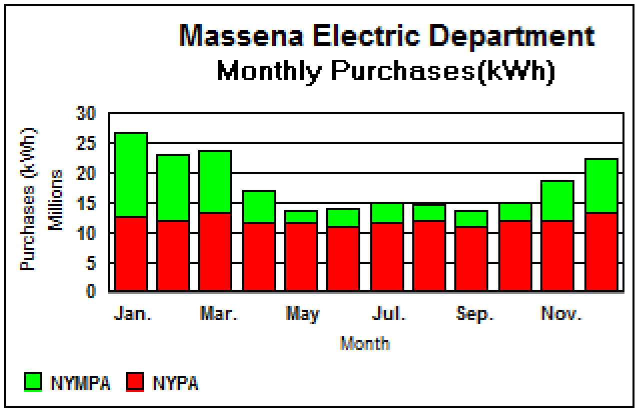
Received: 05/29/2015



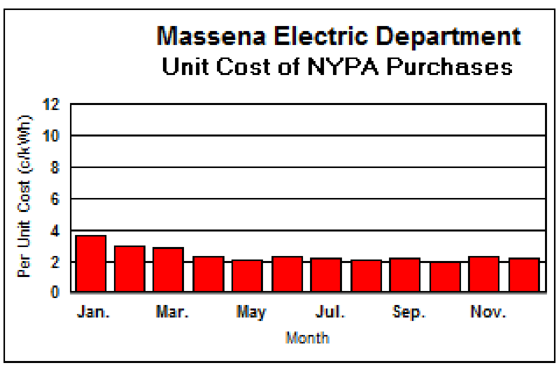
Once one knows when and who the power is being purchased for the next step of the analysis is to get an understanding of the power supply options of the utility. Massena is a NYPA customer and has been allocated approximately 23.7 MW of NYPA power from the Robert Moses dam in Niagara Falls. Due to variation in generation at the plant there is a slight increase in output of the plant during the winter but on average Massena buys approximately 12 million kWh per month . As the Niagara plant is a finite resource the allocation is fixed and any electric demand above the allocated amount must be met from purchases through the market and Massena buys all of its supplemental needs through the New York Municipal Power Agency (NYMPA). The charts below show the monthly purchases of energy and demand by supplier for 2014.

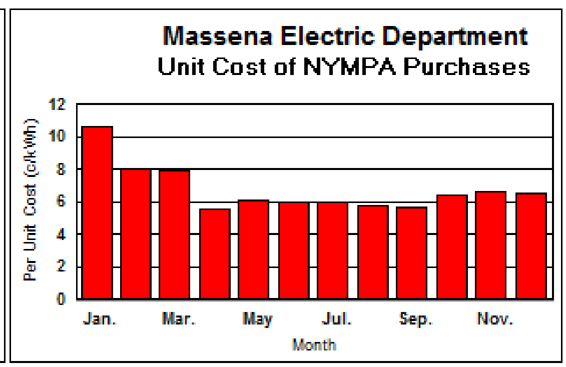


Received: 05/29/2015

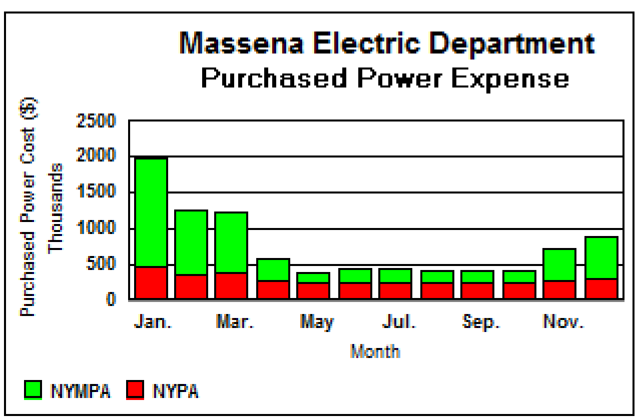


As shown by these charts the increased winter heating demand is all supplied by purchases through NYMPA. The importance of this fact is illustrated by the cost difference between the two power supply options as illustrated below.





With an average cost of almost three times the cost of NYPA power the NYMPA power bill during the winter months is the primary driver of costs to this utility.



Received: 05/29/2015

Q. PLEASE CONTINUE.

A. Now that we know when and what service class(s) is (are) using the NYMPA power the next challenge is to direct the cost of that power to the class(s) that are using it. The goal for doing this is to send the correct price signal to customers to encourage the wise use of energy. There are two approaches to this challenge. The first approach would be to use the base rates by the introduction of inclining block rates. This approach does give the right price signal but since it is done through base rates any conservation done by customers would erode the utility's net income and not change the purchased power bill at all. Because of this a second approach was examined. The second approach was to look for a way to directly pass along the cost of the NYMPA power to the customer or customer classes that are using it. Currently, there is one PPAC for the utility and each customer pays the same PPAC regardless of usage. For a service class that uses a relatively constant amount of power, e.g. S.C. No. 4 the Industrial Rate class, during the winter time their usage does not change dramatically but their power bill does because of the increased usage cost that customers who use electricity for heat impose on the system. Thus, these S.C. No. 4 customers over pay and subsidize others. At the other end of the spectrum, a customer whose usage does increase dramatically during the winter months sees a dampened increase in their bill because of the use of one average PPAC. For this customer, the utility is going out and buying power at a high cost, e.g. in January 2014 at 10.6 cents per kWh, but is charging the average cost, e.g. for January 2014, 7.4 cents per kWh. Thus, this customer under pays the true cost to serve and is subsidized by others.

Received: 05/29/2015

Q. WHAT DO YOU PROPOSE TO ENACT THIS APPROACH?

A. I propose to move away from the average cost approach and use one that will impose the cost of the supplemental power to those who use it. As I stated previously, the delivery of Massena's allocation of hydroelectric power is a constant and varies little from month to month. The usage during the summer months is relatively low both on a month to month as a whole but also for each service class. Thus, one can develop an allocation of the hydroelectric power amongst service classes. Any usage above this allocated amount is supplemental power and I propose a method to allocate the cost of the supplemental power to each service class.

The new structure will utilize two PPACs. The first PPAC will be linked to NYPA hydroelectric power purchases and other costs associated with the NYPA hydro allocation. This "Hydro PPAC" will be relatively stable and small.

The second PPAC will be driven by supplemental power purchases. This "Supplemental PPAC" will include demand and energy charges from the New York Municipal Power Agency (NYMPA), plus other costs associated with supplemental power supply. The "Supplemental PPAC" will be less stable and reflect the generally higher cost of supplemental power.

Received: 05/29/2015

Each Customer in Service Classes SC-1 (Residential), SC-2 (Commercial with No-Charge Demand) and SC-3 (Commercial with Demand) will receive a set allocation of hydroelectric power. For this energy the customer will be charged "Hydro PPAC". Once a customer's usage goes above this allocation they will be charged the "Supplemental PPAC" for energy use greater than this allocation.

I have analyzed the monthly usage of each service class and calculated what the average bill energy usage is before the allocated hydro power is completely used. This average bill is the base allocation of hydroelectric power and it varies from class to class. The allocation for each class is as follows:

SC-1: 1,000 kWh/month
SC-2: 300 kWh/month
SC-3: 1,700 kWh/month

The SC-4 (Industrial) does not fit into this straight allocation of energy usage due to the fact that this service class is based on a minimum demand level but no maximum. Because of this, there are a wide variety of energy usage levels but this is not indicative of a customer who uses electricity for heating purposes. A large user may just be a large user with a usage pattern similar to a small industrial customer. For this class, which shows very little variation in monthly energy usage I propose a blended PPAC. This allows the service class to receive its fair share of hydroelectric power while at the same time minimizing cross

Received: 05/29/2015

subsidization to the other service classes. To more equitably charge this class the cost of power, the blended PPAC will consist of 83% "Hydro PPAC" and 17% "Supplemental PPAC".

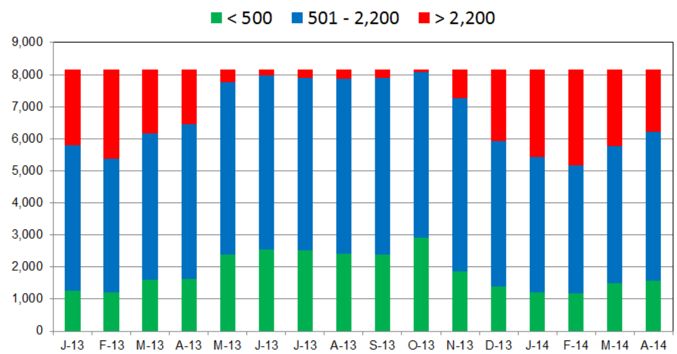
Q. WHAT ARE THE RATE IMPACTS OF THIS RATE DESIGN CHANGE?

A. Exhibits 12 and 13 show the rate impacts. Exhibit 12 shows the rate impact of the proposed rate increase without a change in the PPAC described above. In the summer an average residential customer using 1,243 kWh per month will receive a 6.5% rate increase and during the winter a 5.3% rate increase which on average is about a 5.9% rate increase compared to the overall revenue increase request of 6.2%. This is slightly less than average as Massena is requesting a higher than average increase in the customer charge which will be discussed later in my testimony. Exhibit 12a shows the bill impacts with the proposed change in the PPAC for the each of the summer and winter periods and Exhibit 13 shows the bill impacts on an annual basis. For this same average residential customer on an annual basis the proposed rate increase and change in the PPAC will result in a 4.1% decrease in bills.

For every customer that gets a rate decrease there is another customer that is going to get a rate increase. In this case it would be the very largest residential user who sees the rate increase. As shown on Exhibit 14, it is estimated that a customer who uses 2,500 kWh per month on an average monthly basis will receive approximately a 25% rate increase and a

Received: 05/29/2015

customer who uses 6,000 kWh per month will receive a 43% increase. The graph below shows the number of bills to residential customer by usage strata. In January there are over 2,000 bills that use over 2,200 kWh but very few in the summer.



As illustrated above there is no denying that some customers will see large increases in their bills if this rate design proposal is granted. To mitigate this Massena proposes to phase in the effect of the new PPAC over three years. With the effective date of new rates after this rate case not expected to be until April 2016, this three year phase-in will begin in the Spring and will not be fully implemented until March 2019. Massena believes this phase-in properly sends the correct price signal while keeping rate increases to a manageable level.

Q. DO YOU PROPOSE ANY OTHER RATE DESIGN CHANGES?

A. Yes. For S.C. No 1 –Residential and S.C. No. 2 – Small General Service the current customer charge is $5.00 per month. As a utility with no generation and very little transmission plant, the cost of running the system is almost purely to

Received: 05/29/2015

operate and maintain the distribution system. These costs are essentially fixed as they mainly consist of salaries of operating personnel and sending out bills. In 2014 the cost to operate and maintain the system and then bill customers averages out to be approximately $12.50 per bill. If the administrative and general costs are to be considered the costs increase by another $15.50 per bill. Again, as all of these costs are essentially fixed the current customer charge is inadequate. I propose an increase in the charge from $5.00 per month to $8.00 per month. Similar to the change in the PPAC, to ameliorate undue customer bill impacts I propose to phase this increase in over three years with changes on the anniversary date of the effective date of the new rates. Thus, in 2016 the customer charge would increase by $1.00 per month, another $1.00 per month in 2017 and another $1.00 per month in 2018.

Q. ARE THERE ANY OTHER RATE DESIGN ISSUES?

A. Yes, there are two final issues to be considered. First, Massena would like to enact a formal Year End PPAC reconciliation process. Most municipal utilities in the State have this feature in their tariff and Massena believes that it is beneficial feature to be able to ensure that any over or under collection of purchased power expense, the utility single largest expense item, is properly charged and collected. Second, Massena proposes to increase the base cost of purchased power from 1.6403 cents per kWh to 2.3 cents per kWh. The base cost has not been reviewed or changed in Massena's 33 years of operation and costs have increased since then. The short term financial impact is that for the first two months of

Received: 05/29/2015

implementation there will be an over collection of purchased power costs due to the lag between when the PPAC is calculated and when it is recovered. This will cause excess PPAC revenues to be collected. With the introduction of the PPAC reconciliation this over collection of PPAC revenues will be automatically credited back to ratepayers at the time of reconciliation and no reflection of the financial impact of this change need to be reflected in the rate case which is only setting base rates.

<u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.