



Orange and Rockland Utilities, Inc.  
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April 18, 2016

Honorable Kathleen H. Burgess  
Secretary  
State of New York  
Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223-1350

RE: Case No. 14-E-0493, Proceeding on Motion of the  
Commission as to the Rates, Charges, Rules and  
Regulations of Orange and Rockland Utilities, Inc. for  
Electric Service

Dear Secretary Burgess:

Orange and Rockland Utilities, Inc. ("O&R" or the "Company") hereby submits for filing with the Public Service Commission (the "Commission") the following tariff leaves and Statement of Light Emitting Diode Luminaire Charges No. 1 (the "LED Statement") reflecting revisions to its Schedule for Electric Service, P.S.C. No. 3 – ELECTRICITY ("Electric Tariff").

6th	Revised Leaf No.	283
4th	Revised Leaf No.	286
2nd	Revised Leaf No.	287

The revised tariff leaves and the LED Statement make changes to Service Classification ("SC") No. 4 – Public Street Lighting – Company Owned. Both the tariff leaves and the LED Statement are issued April 18, 2016, to become effective on August 1, 2016.

#### **Reason for Filing**

This filing is made in compliance with the Commission's Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans, issued October 16, 2015, in the above-referenced proceeding ("Rate Order"). In the Rate Order, the Commission established an electric rate plan governing the Company's electric service for the two-year period commencing November 1, 2015.

As described in the Rate Order (pp. 22-23 and 46-47) and the Joint Proposal (p. 43), the Company was directed to submit a tariff filing within six months of the date of the Rate Order (i.e., by April 18, 2016) that: (a) extends municipalities additional light emitting diode ("LED") street lighting options; (b) re-examines the costs of LED street lights currently contained in the Electric Tariff and includes any appropriate price adjustments; and (c) examines the feasibility and cost implications of increasing the Company's current no-cost system-wide street light replacement threshold from 2% per year to 25% per year.

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### Tariff Changes

By this tariff filing, the Company proposes to add six new LED street light fixture options under SC No. 4. These six new options are presented in Attachment 1 to this filing which includes the following information:

- Proposed LED fixture watts, lumens, annual kWh, total capital cost, estimated annual fixture charge based on the methodology presented in Attachment 2 to this filing, estimated annual volumetric charges (i.e., commodity supply, merchant function charges and applicable surcharges) and the resulting estimated total annual LED cost;
- Current non-LED tariffed comparable fixture that might be replaced by an LED option, the fixture watts, lumens, annual kWh, the 12-month average of those fixtures in service in the field as of February 29, 2016, currently approved annual fixture charge, estimated annual volumetric charges, and estimated total annual charges;
- The estimated annual LED benefit/(cost) based on the difference between the estimated annual charges under the proposed LED option as compared to the estimated annual charges under the current comparable non-LED tariffed option; and
- An analysis of the aforementioned estimated annual LED benefit/(cost) between fixture charge and volumetric components.

The two LED options currently offered in the Electric Tariff are a 5,890 Lumen - 74 Watt LED and a 9,365 Lumen – 101 Watt LED. Pursuant to the Rate Order's directive, the Company re-examined the costs of these two fixture offerings. As shown in Attachment 1, the Company recalculated the annual fixture charge for both fixtures using the same methodology as was used to calculate the charges for the six new LED fixtures proposed in this filing. In both cases, the annual fixture cost has increased when compared to their currently tariffed rate. Since customers currently have these fixtures installed, the Company has decided at this time to not revise the prices for both fixtures.<sup>1</sup>

As shown in Attachment 3 to this filing, the Company also completed an examination of the feasibility and cost implications of increasing the Company's current no-cost system-wide street light replacement threshold from 2% per year to 25% per year. First, the Company calculated the fixed capital costs for each street light fixture identified in Attachment 1 and performed a fixed charge study for each fixture based on two scenarios. Scenario 1 shows the impact of replacing 25%<sup>2</sup> of the existing fixtures<sup>3</sup> with fixtures currently approved in the Electric

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<sup>1</sup> The Company has learned that both the 5,890 Lumen - 74 Watt LED and the 9,365 Lumen – 101 Watt LED fixture options have recently been discontinued by their manufacturers. The existing Company inventory of these two fixtures is very low (less than 65 LED fixtures in total) and these LED fixtures account for approximately 0.4% of the light fixtures currently operational in the Company's service territory. Due to the manufacturer discontinuance, the Company will no longer purchase these fixtures, but will continue to install them at the request of customers until the Company's current inventory is depleted.

<sup>2</sup> Under Scenario 1, the number of fixtures to be replaced was based on each fixture's proportional percentage to the average total installed lights in the field.

<sup>3</sup> The Company chose the fixtures with the highest percentage of installations in its service territory. The eight fixtures chosen currently account for 94% of all field installations.

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Tariff. Scenario 2 shows the impact of replacing 25% of those currently tariffed fixtures with the six newly proposed LED comparable/replacement fixtures. The annual aggregated carrying costs under both scenarios were then used to quantify the dollar per luminaire effect of expanding the current 2% no-cost replacement threshold to a 25% no-cost replacement threshold. Also, the Company quantified the resulting annual cost as a percentage of the 2015 delivery revenue requirement for SC No. 4 (i.e., the percentage increase to all SC No. 4 luminaire charges). The resulting percentage increases to all SC No. 4 luminaire charges in year one were approximately 37% and 48% under Scenarios 1 and 2, respectively.

Another result of increasing the no-cost replacement threshold would be the resulting increase to Company labor costs. At present, the Company resources which would be performing the accelerated LED fixture replacements may also perform tasks such as electric outage response and capital projects. If those resources had to be committed to perform LED upgrades at a rate of 25% annually the Company would need to hire additional workforce (either full-time or contractors) to handle these functions currently being performed by existing labor. The expected volume of activity at a rate of 25% makes it impractical to anticipate being able to absorb the additional work with overtime. Given the percentage increases to all SC No. 4 bills under both scenarios, as well as the escalations relating to labor costs, the Company does not support increasing the current no-cost replacement threshold to 25%.

Rather than increasing the no-cost replacement threshold, the Company offers an alternative proposal. The Company first reviewed its three-year history of street light related visits and found that: (a) the Company annually replaces approximately 2.7% of all street lights fixtures in its service territory as like-in-kind capital projects; and (b) the Company visits 14.6% of all fixtures in its service territory as part of maintenance associated with trouble reports. As a result, the Company proposes that the Commission approve that all street light related site visits performed by the Company under (a) and (b) above be performed as capital upgrades using one of the new (or existing) LED options presented in Attachment 1 for municipalities that consent to have the LED fixtures installed.

To address concerns from municipalities that may wish to have LEDs installed prior to the time they would be replaced under the proposed maintenance cycle, the Company proposes the current no-cost system-wide replacement threshold of 2% remain as is, but that all future fixture replacement requests under this threshold be allowed only for LED fixture head replacements. These combined proposals will: (a) help decrease redundancy (relating to time and labor costs) associated with the Company having to make multiple site visits if the Commission approves a higher replacement threshold; (b) mitigate the costs associated with hiring additional labor (as identified in the paragraph above) while essentially increasing the street light fixture no-cost replacement threshold to approximately 19.3% annually; (c) help the municipalities to lower their carbon emissions based on reduced electricity usage; (d) allow municipalities to accelerate the cost savings from the LED fixtures; and (e) reduce the future amount of maintenance the Company will have to perform given the estimated longer field lives of the new LED fixtures. Hypothetically, this scenario would result in the replacement of all remaining non-LED street lights by LED street lights in less than five and a half years.

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Approval of the Company's proposal to complete all new street light related site visits with new LED fixtures will result in stranded inventory costs relating to non-LED fixture heads, bulbs, and photo controls which will never be put into service. The current inventory<sup>4</sup> of fixture heads, bulbs and photo controls as of April 1, 2016 is set forth below. Because the stranded costs associated with this inventory will decrease before the Commission's final decision in this proceeding, the Company will reevaluate these costs as necessary, but ultimately the Company would seek to collect these stranded costs from customers in the future.

O&R - Inventory of Streetlight Heads, Bulbs  
and Photo Controls as of April, 1 2016

	<u>Quantity</u>	<u>Total Price</u>
Heads	535	\$35,184.34
Bulbs	4,907	28,483.57
<u>Photo Controls</u>	1,970	<u>6,501.00</u>
Total		\$70,168.91

The Company also has reviewed the issue of the recovery of undepreciated investment regarding the early retirement of street lights. Replacing existing useful fixtures with little to no salvage value will result in a balance of undepreciated investment. As of December 31, 2015 the net plant value in Commission accounts 373100 and 373200 relating to overhead and underground street lights was approximately \$5.23 million. The Company has identified the following two potential recovery options for this undepreciated investment:

1. The Company could retire the undepreciated investment into the accumulated reserve for book depreciation, such that unrecovered costs will be left as a component of the reserve variation between what has and what should have been collected from customers over the useful life of the assets. To the extent the assets are retired early, the Company requests that the Commission provide additional consideration for recovery of these costs via future Company rate case proceedings. Assuming the 19.3% retirement pattern beginning in 2017, the Company estimates the balance of the unrecovered costs to be approximately \$3.739 million.
2. The Company could collect the unrecovered amount per fixture from the customer whose fixtures have been replaced with LEDs, either as a one-time, up-front charge or as a charge over a predetermined period of time. As indicated above, based on net plant balances, active field inventory levels as of December 31, 2015, and assuming a 19.3% retirement threshold, the Company estimates that this per fixture charge would be initially set at approximately \$135.54 (or \$3.739 million in unrecovered costs / 27,586 street lights). However, the increase in the Company's income tax liability that results from this type of cost recovery would need to be reflected in any type of customer charge, which would increase the overall charge to customers.

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<sup>4</sup> Does not include fixture heads and photo controls associated with the two LED fixtures currently tariffed under SC No. 4.

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Option 1 would result in economic concerns for all customers as each service classification would be burdened with a portion of the unrecovered investment. Option 2 entails cost responsibility by only the customers taking street lighting service which is consistent with cost causation principles. As a result, the Company recommends that the Commission approve Option 2 presented above.

The Electric Tariff modifications resulting from the Company's proposal are described below:

- Leaf 283 – has been updated to reflect the six new LED fixture options.
- Leaf 287 – has been updated to state that, for periods after October 31, 2017, the Company will continue to replace 2% of luminaires as on a system-wide basis as requested by municipalities using the methodology adopted by the current Rate Order.

### **LED Statement**

As a result of this filing, the Company is adding an LED Statement to its Electric Tariff. The Company researched prices and is planning to purchase the six new LED fixtures presented in this filing from three separate vendors. Because specifications and prices of each new LED fixture vary by vendor across the six new lumen classes, the Company developed its rates based on the average price per fixture per each new lumen class (see Attachment 2). As a result, the LED Statement sets an average price for each fixture based on the range of wattages which fall within each new lumen class. Because LED technology is improving at such a rapid rate, the LED Statement provides the Company with the flexibility to add new LED lumen classes and re-price its current LED fixture offerings, should more economical fixtures in an existing class become available in the future.

### **Conclusion and Notice**

The Company will publish notice of this filing in accordance with Ordering Clause 5 of the Rate Order. Please direct any questions regarding this filing to Cheryl Ruggiero at (212) 460-3189.

Very truly yours,

/s/

William A. Atzl, Jr.  
Director – Rate Engineering