

**VILLAGE OF ARCADE
17 CHURCH STREET
ARCADE, NEW YORK 14009**

May 13, 2005

Jaclyn Brilling, Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Dear Secretary Brilling:

Re: Village of Arcade - Rates

Enclosed please find five copies of the revised Leaf Nos. 5, 6, 8, 9.1, 10, 11, 12, and 16 of PSC No. 1 - Electricity for the Village of Arcade (Village), issued May 13, 2005, to be effective September 1, 2005.

The proposed Tariff Leaves will increase the monthly bill of a residential customer using 750 kilowatt-hours from \$28.03 to approximately \$29.62, or 5.65%. The proposed change will increase the Village's annual base revenues by \$299,968 (from \$4,342,480 to \$4,642,448). The filing is a "mini-filing" under the Commission's Rules of Procedures and a hearing is not required.

The Village is also proposing to make a rate design change for its demand metered classes (S.C. 2A - General Service - Demand Metered and S.C. No. 3 - Large General Service). Given that the distribution system was sized for the winter demand (approximately 38,000 MW) and the summer peak demand is very much lower (approximately 20,000 MW), the Village would like to encourage summer usage by the large demand metered customers. The Village has examined ways to design a rate for seasonal customers with the main parameters of the new rate as follows: 1) the existing rate design with its ratcheted demand rate has been very effective in discouraging winter peak usage and the Village would like to retain that feature, 2) since almost all of the Village's cost to serve customers are for maintaining the existing system, marginal costs in the summer are limited to the cost of purchased power and incremental billing costs, 3) the rate design should provide for a contribution to fixed costs, and 4) the customer must commit that its winter demand will be no more than 25% of its summer peak demand.

The Village believes that a special provision that maintains the exiting energy charge and purchased power adjustment clause charge will ensure that incremental costs are collected. The existing demand charge for this Winter Period would be reduced down to \$2 per kW with all other provisions of the demand charge ratchet still in place. For these "seasonal customers," the Winter Period will be defined as the usage in the months of December-March, as these are the months when the system is most heavily loaded due to electric heating load. The Village also recognizes that some customers could reduce usage for even longer periods, and the Village would like to extend the discount for an additional term if the customer will commit to the reduction.

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There are five customers that meet the criteria to be seasonal customers under the proposed rate design. As such, implementation of the rate design change will result in a modest loss of revenues to the Village. The Village proposes that any revenue loss due to the initial introduction of a seasonal rate will be paid for out of net income and, therefore, will have no impact on the Village's remaining customers in this rate filing. The Village believes that proposal strikes the appropriate balance for the introduction of rate design that encourages economic development during non-peak periods and minimizes the rate impact to other customers.

The Village

The Village operates a municipal electric utility in the Village of Arcade and parts of the Towns of Arcade, Freedom, Yorkshire, and Sardinia. It is governed by a Mayor and Board of Trustees and provides service to approximately 4,000 customers. The Village's service area is in western New York in Wyoming County. The average number of customers has remained consistent over the last several years, and there are no indications that this will change in the near term. The quality of service is excellent with no complaints. The electric safety record of the Village is excellent. The Village is well managed and professionally operated.

The Rate Filing

The Village's last rate increase was fourteen months ago with an effective date of March 1, 2004. There are three main reasons for the current rate increase. First, the Village's rate of return for fiscal year 2004 was negative 1.65%. The forecasted rate of return before the requested revenue increase is expected to be negative 2.47%. This negative rate of return is due to the fact that the rate base and expenses have grown considerably over the last few years. During the Village's last rate filing, it was understood that the Village would file again in 2005 for additional rate relief. This filing, as well as the last filing, requested increases in base revenues of just less than \$300,000, which allowed the Village to file as a "mini-filing" under the Commissions Rules and Regulations.

Second, more than half of the Village expenses are related to purchased power expense with the next largest expense item being labor and fringe benefits. These costs continue to increase because of outside forces, and the Village wishes to pay competitive wages in order to retain the existing workforce. Increased costs in wages and fringe benefits account for approximately two-thirds of the requested increase. The Village also incurs a significant amount of interest expense and principal pay down on prior years' borrowings used to finance substation and transmission line renovations. Interest and principal payments approximate \$283,000 per year.

Third is the equipment replacement program. Because of the inadequate cash flow being generated, the Village has not been able to replace equipment in a timely manner in accordance with good utility practice. The Village has approved a five-year capital program that will allow for the continuation of safe and reliable service. These improvements include several vehicles (bucket trucks, pickup trucks, and dump truck), the installation of new poles, primaries, and transformers, and the renovation of garages, building, and various substations. The replacements total over \$3,800,000. To limit the rate increase, the Village plans to issue Bond Anticipation Notes to finance these capital improvements over the next few years.

The Village's proposed rate design was structured so that each customer class would receive roughly the same rate increase. As the purchased power adjustment factor is such a large

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percentage of costs, there is some slight variation in rate increase to classes depending on their energy usage levels. The Village also proposes to decrease the factor of adjustment from 1.052787 to 1.050781, the average factor of adjustment over the last six years.

The filing provides an ample basis for the Commission to process the application expeditiously. The filing contains three years of income statements and projections of revenues, expenses, and rate base. The filing is based on fiscal year May 31, 2004 data. Even though this is a mini-rate filing and does not require a fully forecast rate year submission, the Village has produced a normalized rate year for revenues and costs for the calendar year 2004. The Village has detailed back-up workpapers supporting the rate request and will provide them to staff both electronically and hard copy format upon request.

Public Notice

The Village will individually notify each of its customers regarding the rate request via billing inserts.

Further Information

The Village asks that questions regarding this filing be directed to:

William C. Freitag
Bollam, Sheedy, Torani & Co. LLP
26 Computer Drive West
Albany, New York 12205
Tel: (518) 459-6700

Respectfully submitted,
For the Village of Arcade



William C. Freitag, CPA

WCF/dmc
Enclosures