

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

November 6, 2003

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

Dear Secretary Brillling:

Re: Village of Arcade - Rates

Enclosed please find five copies of the revised Leaf Nos. 5, 6, 8, 10, 12, and 16 of PSC No. 1 - Electricity for the Village of Arcade (Village), issued November 6, 2003, to be effective March 1, 2004. The Village previously wrote a letter to you dated October 15, 2003, regarding a rate request. That letter never resulted in a formal filing, as the electronic tariffs were never filed. As such, this filing supercedes any other communication regarding the Village's rates.

The proposed Tariff Leaves will increase the monthly bill of a residential customer using 750 kilowatt-hours from \$26.53 to approximately \$28.12, or 5.97%. The proposed change will increase the Village's annual base revenues by \$297,000 (from \$3,964,497 to \$4,261,497). The filing is a "mini-filing" under the Commission's Rules of Procedures and a hearing is not required.

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 three years ago. There are three main reasons for the current rate increase. First, the Village's rate of return for fiscal year 2002 was 0.97%. This low rate of

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return is due to the fact that the rate base and expenses have grown considerably since the last rate case.

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 one-third 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 \$310,000 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 \$1,800,000. To limit the rate increase, the Village plans to issue a Bond Anticipation Note during 2004 and make 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 percentage of costs, there is some slight variation in rate increase to classes depending on their energy usage levels. The Village also proposes to increase the factor of adjustment from 1.0511781 to 1.052787, 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, 2002 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 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.

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Further Information

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

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Respectfully submitted,
For the Village of Arcade



Frank Radigan

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Enclosures

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