

**ILION BOARD OF LIGHT COMMISSIONERS  
MUNICIPAL BUILDING  
49 MORGAN STREET  
ILION, NEW YORK 13357-1714**

October 28, 2004

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

Dear Secretary Brilling:

Re: Ilion Board of Light Commissioners

Enclosed please find five copies of leaf Nos. 1-20 of PSC No. 2 - Electricity for the Ilion Board of Light Commissioners (IBLC), issued October 28, 2004, to be effective March 1, 2005.

The proposed Tariff Leaves will increase the monthly bill of a residential customer using 750 kilowatt-hours from \$32.00 to approximately \$35.35, or 10.47%. The proposed change will increase the IBLC's annual base revenues by \$296,135 (from \$2,848,326 to \$3,144,461). This represents an increase in annual base revenues by approximately 13%. The filing is a "mini-filing" under the Commission's Rules of Procedures and a hearing is not required.

In addition, the proposed Tariff Leaves will increase the reconnection charges to rates that better represent the cost to perform reconnection services.

**The IBLC**

The IBLC operates a municipal electric utility in the Village of Ilion and parts of the Town of German Flatts. It is governed by a Mayor and Board of Trustees. The IBLC is managed by a chairman and commissioners appointed by the Village Board and provides service to approximately 3,900 customers. The IBLC's service area is in central New York in Herkimer County. The average number of customers has remained consistent over the last several years, and there are no indications that this will change significantly in the near term. The quality of service is excellent with no complaints. The electric safety record of the IBLC is excellent. The IBLC is well managed and professionally operated.

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## **The Rate Filing**

There are four main reasons for the current rate increase. First, the IBLC's rate of return for fiscal year 2004 was 1.19%. This marginal rate of return is due to the fact that the rate base has basically remained at the same level while expenses have grown considerably since the IBLC's last rate increase.

Second, approximately half of the IBLC's expenses are related to purchased power expense with the next largest expense items being labor and fringe benefits. These costs continue to increase because of outside forces, and the IBLC wishes to pay competitive wages in order to retain the existing workforce. Purchased power expense, labor, and fringe benefits account for 77% of total operating costs.

Third, there is a need for an equipment replacement program. To maintain good utility practice, the IBLC has approved a four-year capital program that will allow for the continuation of safe and reliable service. These improvements include the installation of new poles, primaries, and transformers, the renovation of substations, and the purchase of customer billing and office automation systems, and the purchase of various vehicles. These replacements will cost over \$1,424,000 over the next four years. To limit the rate increase, the IBLC plans to issue Bond Anticipation Notes during 2005, 2006, 2007, and 2008 as they make these capital improvements over the next few years.

Fourth, the IBLC has reported declining profits over the last three years, including an \$11,000 loss in 2004. As a result of its unstable financial condition, the IBLC has experienced declining cash balances for the past three years and has not been able to fund its depreciation cash reserve fund.

The IBLC'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 IBLC also proposes to increase the factor of adjustment from 1.077146 to 1.113045, the average factor of adjustment over the last six years.

The IBLC has incurred certain accounting and engineering fees associated with the rate filing. These fees are expected to approximate \$25,000 and the IBLC is requesting permission to amortize these costs on a straight-line basis over a three-year period beginning in the rate year.

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 IBLC has produced a normalized rate year for costs for the fiscal period March 1, 2005 (the effective date of the rate increase) to February 28, 2006. The IBLC has detailed back-up workpapers supporting the rate request and will provide them to staff in both electronic and hard copy format upon request.

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## **Public Notice**

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

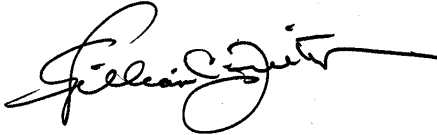
## **Further Information**

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

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Respectfully submitted,  
For the Ilion Board of Light Commissioners

A handwritten signature in black ink, appearing to read 'William C. Freitag', with a long horizontal flourish extending to the right.

William C. Freitag

WCF/bmg  
Enclosures

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