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**BPU ANNOUNCES FIRST RATE INCREASE FILING IN ELEVEN YEARS**

The Board of Public Utilities announced today it was forced to file a formal rate increase with the New York Public Service Commission. It was eleven years ago, in 1993, when the BPU last filed for a rate increase. Over the years, while operating costs have increased steadily, rates have not. BPU customers should know the proposed increase is on par with the compound inflation rate our customers have experienced during this eleven-year time frame. The new rates likely will become effective on September 1, 2005.

BPU General Manager, Walter Haase, stated: "We have successfully deferred filing this rate increase for several years by instituting both significant cost controls and prudent fiscal management strategies." Two years ago, the BPU won an important victory regarding overcharges for hydroelectric energy, which resulted in a recovery of almost \$8 million. The BPU bought-out the remaining term of a transmission contract with Niagara Mohawk Power Corporation. This buy-out resulted in over \$5 million of additional savings, which was reflected in lower monthly fuel adjustment charges paid by customers. The BPU also negotiated a settlement with Niagara Mohawk Power Corporation regarding transmission charges. The settlement funded several important capital projects, which otherwise would have required an earlier rate increase. These various refunds allowed the BPU to establish rate stabilization funds that have successfully met important BPU goals. The monies helped lower customers' bills, funded necessary capital projects and, most importantly, deferred the need for this rate increase. Although the refunds all have been utilized judiciously, these funds are now depleted and the timing of the proposed new rates will coincide with the expiration of the rate stabilization fund.

In addition to eleven years of inflationary effects and the expiration of the rate stabilization fund, the proposed rate increase is caused by other factors. Payments in lieu of taxes have increased and the state has imposed increases in employee retirement and health care costs. Capital requirements, depreciation, installation of pollution controls and other environmental costs, need to be funded and recovered. The BPU must ensure that sufficient funds are available for the retirement and proper disposal of the power plant equipment. Further, the 1999 creation of the new Independent System Operator, which operates the statewide transmission system, also has increased the Board of Public Utilities' costs dramatically.

The components of the proposed rates remain unchanged and are composed of a basic service charge, a demand charge, an energy charge and a fuel cost adjustment. The fuel cost adjustment varies monthly and is determined by fuel costs, power supply sales, transmission costs, etc.

The Board of Public Utilities new proposed rate increase will be phased-in over three years: 15.75% during year one and 7.5% during both years two and three. While the BPU could justify the full rate increase in one year, in an effort to help BPU customers adjust to this increase the BPU approved a unique three-year phased-in approach. This will reduce needed

revenue by several million dollars, but customer financial health is just as important. This phase-in will have different effects on each of the Utility's customer groups. For instance, if the proposed new rates went into effect today, first year bills for average residential customers would be \$7.50 a month higher than previous monthly bills, while second and third year bills would be about \$4.50 and almost \$5.00 a month higher than previous monthly bills, respectively. A similar pattern exists for small commercial customer bills. Again, if the proposed new rates went into effect today, first year bills for average small commercial customers would be about \$21.75 a month higher than previous monthly bills, while second and third year bills would be about \$11.75 and almost \$12.50 a month higher than previous monthly bills, respectively. Large commercial and industrial users proposed rates (in cents per kilowatt hour) would be as follows: 4.5 ¢/kWh during the first year, 4.8 ¢/kWh during the second year and 5.2 ¢/kWh during the third year. These increased rates remain far below similar customer group rates charged by Niagara Mohawk Power Corporation in the surrounding area.

The approval process for a rate increase takes approximately eleven months and includes a review of the Board of Public Utilities' rate filing by the Public Service Commission staff and both a public statement and evidentiary hearing. Mr. Haase stated: "While we never want to file a rate increase, after eleven years we just couldn't wait any longer. The effects of inflation alone constitute well over half the rate increase."

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