

PSC NO: 2 ELECTRICITY  
COMPANY: MASSENA ELECTRIC DEPARTMENT  
EFFECTIVE DATE: 09/01/2006

LEAF: 36  
REVISION: 1  
SUPERSEDING REVISION: 0

### PURCHASE POWER ADJUSTMENT (PPA)

The Purchased Power Adjustment (PPA) is calculated utilizing a rolling average (12 month) of Purchased Power costs. The calculation of the PPA for any given month is as follows: a base PPA is calculated by taking the sum of the monthly purchase power costs for the preceding twelve months and dividing it by the sum of the monthly purchases, in kilowatt hours, and subtracting the Base Purchase Power Cost per kWh (presently \$0.016403 per kWh). This difference is then multiplied by the Factor of Adjustment. The PPA also includes a PPA Surcharge/Refund. The PPA Surcharge/Refund is made up of two factors; estimated cash loss (or cash over collection) due to increases (or decreases) in purchase power costs and an annual reconciliation of PPA over/under collections. As MED is officially notified of increases (or decreases) in purchase power costs and MED expects the increase (or decrease) will result in a cash loss (or cash over collection), MED will estimate the cash loss (or cash over collection) and amortize the estimated cash loss (or cash over collection) over the next twelve months. In order to assure that MED does not over or under collect its purchase power costs using the PPA Surcharge/Refund, MED will reconcile the PPA Surcharge/Refund to Surcharge/Refund collections, and actual purchase power costs. Any gains or shortfalls between the actual costs recovered in the PPA and that allowed due to the application of the PPA Surcharge/Refund will be recovered from or repaid to customers in the year following the application of the PPA Surcharge/Refund. The total estimated loss (or cash over collection) and reconciliation will be divided by the estimated sales for the upcoming year to determine per kWh charge. The calculation of the Amortization and reconciliation process will be repeated annually.

Rationale behind change -- Because of the rolling 12 month recovery method, it takes MED a full 12 months to recover increases in power costs. As power costs are currently experiencing large increases, MED sees a need to recover these increases more quickly. MED would like to immediately amortize these increases over a 12 month period and begin recovering the expenses in the current month (1/12<sup>th</sup> of the increase).

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