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NIAGARA MOHAWK POWER CORPORATION
300 Erie Blvd. West
Syracuse, New York 13202

October 23, 2001

Honorable Janet H. Deixler, Secretary
Public Service Commission
3 Empire State Plaza
Albany, New York 12223

RE: Case Nos. 94-E-0098 and 94-E-0099
Proceedings on Motion of the Commission as to the Rates
Charges, Rules and Regulations of Niagara Mohawk Power Corporation
for Electric Service and Electric Street Lighting Service

Dear Secretary Deixler:

The attached Statement issued by Niagara Mohawk is being transmitted for filing in accordance with the requirements of the Public Service Commission, State of New York.

Statement of Commodity Adjustment Charge
Statement No. 1

To P.S.C. No. 214 Electricity

Effective: October 29, 2001

The above Statement of Commodity Adjustment Charge (CAC) No. 1 is being filed per P.S.C. No. 207 Electricity, Rule No. 29 - Delivery Charge (DCA) Adjustment which was recently approved by the Commission as part of the Company's Power Choice Year 4/5 compliance filing issued July 31, 2001 in Case Nos. 94-E-0098 and 94-E-0099. Specifically, Rule No. 29.2 describes the calculation of the CAC which adjusts the Delivery Charge Adjustment prices for deviations between actual cost of unhedged energy and capacity for purchased power, and Electricity Supply Service (ESS) revenues collected from customers in their service bills.

The Company proposes that all CAC rates associated with Statement No. 1 be set at \$0.00000 per kilowatthour. As stated above the CAC was approved by the Commission to become effective September 1, 2001, and this initial CAC filing represents the calculation for the cost month of September. It has been concluded that there exists a mismatch between ESS and DCA revenues and fuel and purchased power costs for the cost month of September 2001 for the following reasons:

! September's revenues include a large amount of August related ESS prices which precedes the effectiveness of the CAC. September's ESS revenues are billed and reported for billing batches 1 through 20 which is inclusive of the period August 30 through September 27. The ESS price on customers' service bills represent a thirty-day weighted average of the previous thirty days prior to the date the customer is billed. Accordingly, revenues reported for the first half of September's billing batches are inclusive of mainly August's ESS prices. Additionally August's ESS prices were relatively high and comparing them to lower September fuel and purchased power costs is considered to be inappropriate.

! September's revenues reflect the application of a prorated DCA due to different commodity back-out rates before and after the rate change date

of September 1. The effect of the new commodity back-out rates does not become totally apparent until September 30. Accordingly, this has the effect of lowering September's revenues

! Effective September 1, the DCA rates have been applied to hedged percentage factors. Prior to September 1, no hedged percentage was applied. Such DCA rates are subject to proration during the month of September and will result in an understatement of revenues.

For these reasons the Company can not accurately calculate the CAC for this initial month. The Company has discussed these issues in detail with representatives of the PSC Staff responsible for the review of the CAC.

Statement of Commodity Adjustment Charge No. 1 is effective October 29, 2001 for batch billings and November 1, 2001 for calendar month billings.

Please advise the undersigned of any action taken in regards to this filing.

Sincerely,

George A. Bauman,
Manager - Tariff Services

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