

BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
New York State Electric & Gas Corporation
for Electric Service

Case 09-E- _____

Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
New York State Electric & Gas Corporation
for Gas Service

Case 09-G- _____

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**DIRECT TESTIMONY OF THE
DELIVERIES AND REVENUE PANEL**

**Patricia J. Clune
Chester W. Luce
Michael J. Purtell
Shari M. Wells**

September 17, 2009

DELIVERIES AND REVENUE PANEL

1 Q. Please state the names of the members on this Deliveries and Revenue Panel (the
2 "Panel).

3 A. We are Patricia J. Clune, Chester W. Luce, Michael J. Purtell, and Shari M.
4 Wells.

5 Q. Ms. Clune, please state your current position and business address.

6 A. My title is Lead Analyst in NYSEG's Rates and Regulatory Economics
7 Department. My business address is NYSEG, 18 Link Drive, P.O. Box 5224,
8 Binghamton, New York 13902-5224.

9 Q. Please summarize your educational background and work experience.

10 A. I received an Associates degree in Accounting from Broome Community College
11 in 1998. I joined NYSEG in April 1977 and held support positions in several
12 departments. In April 1996, I was promoted to Project Analyst in the Electric
13 Rates & Tariffs Department. In that position, I provided analysis and support for
14 the Company's revenue and forecast model, and tariff development and
15 interpretation. In May 2002, I was promoted to Lead Analyst in the Pricing and
16 Analysis Section, and am responsible for electric revenue forecast modeling and
17 analysis, monthly margin reporting and analysis, and rate design support.

18 Q. Have you previously testified in other proceedings before the New York State
19 Public Service Commission ("PSC" or the "Commission") or any other state or
20 federal regulatory agency or court?

21 A. I have testified on several occasions before the Commission, including Cases 01-
22 E-0359, 02-E-0779 and 05-E-1222. I also sponsored testimony in Case 09-E-
23 0082.

DELIVERIES AND REVENUE PANEL

1 Q. Mr. Luce, please state your current position and business address.

2 A. My title is Lead Analyst in New York State Electric and Gas Corporation's
3 ("NYSEG") Rates and Regulatory Economics Department. My business address
4 is RG&E, 89 East Avenue, Rochester, New York 14649.

5 Q. Please summarize your educational background and work experience.

6 A. I received a Bachelor of Science degree in Accounting from Utica College of
7 Syracuse University (currently known as Utica College) in 1979. I have also
8 earned a Master of Business Administration from Heriot-Watt University's
9 Edinburgh Business School. I started at NYSEG in February 1988. From that
10 time until July 2007, I held various Tax and Accounting positions in NYSEG,
11 Energy East Management Corporation and Utility Shared Services. Starting in
12 July 2007, I joined the Rates and Regulatory Economics Department where I have
13 responsibility for supporting the forecasting of units and customers for NYSEG
14 and RG&E.

15 Q. Have you previously testified in other proceedings before the New York State
16 Public Service Commission ("PSC" or the "Commission") or any other state or
17 federal regulatory agency or court?

18 A. No, have I not previously testified in other proceedings before the PSC or any
19 other state or federal regulatory agency or court. However, I sponsored testimony
20 in Case 09-G-0085.

DELIVERIES AND REVENUE PANEL

1 Q. Mr. Purtell, please state your current position and business address.

2 A. My title is Lead Analyst in NYSEG's Rates and Regulatory Economics
3 Department. My business address is NYSEG, 18 Link Drive, P.O. Box 5224,
4 Binghamton, New York 13902-5224.

5 Q. Please summarize your educational background and work experience.

6 A. I received a Bachelor of Science degree in Mathematics from Franciscan
7 University in 1989 and a Master of Science degree in Systems Science from
8 Binghamton University's Watson School of Engineering in 2003. From the time
9 that I was hired by NYSEG in 1991 until 2000, I held various positions with
10 progressively increasing responsibilities in the customer service department. In
11 2000, I was promoted to Principal Analyst in the Load Forecasting and Reporting
12 Department, through which I had responsibility for NYSEG's electric forecasts.
13 When that department merged with NYSEG's Performance Management
14 department in 2001, I assumed the additional responsibility for NYSEG's natural
15 gas forecasts. In 2003, I was promoted to Lead Analyst in the Rates and
16 Regulatory Economics group where I assumed the additional responsibilities for
17 Rochester Gas and Electric Corporation's electric and gas forecasts.

18 Q. Have you previously testified in other proceedings before the Commission or any
19 other state or federal regulatory agency or court?

20 A. Yes, I testified in Cases 03-E-0765, 03-G-0766 and 05-E-1222. I also sponsored
21 testimony in Cases 09-E-0082 and 09-E-0084.

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1 Q. Mrs. Wells, please state your current position and business address.

2 A. My title is Lead Analyst in NYSEG's Rates and Regulatory Economics
3 Department. My business address is NYSEG, 18 Link Drive, Binghamton, NY
4 13904.

5 Q. Please summarize your educational background and work experience.

6 A. I graduated from Broome Community College with an Associates degree in
7 Administration. I have been employed by NYSEG for twenty years and the Rates
8 and Regulatory Economics Department for seven years. One of my primary
9 responsibilities since joining the Rates and Regulatory Economics Department
10 has been the forecasting and analyzing of gas revenues and margins. Prior to
11 joining the Rates and Regulatory Economics Department, I was the Billing
12 Analyst in NYSEG's Gas Transportation Department for five years.

13 Q. Have you previously testified in other proceedings before the Commission or any
14 other state or federal regulatory agency or court?

15 A. No. I have not testified in proceedings before the PSC or any other state or
16 federal regulatory agency or court. However, I sponsored testimony in Case 09-
17 G-0083.

18 Q. What is the overall purpose of the Panel's testimony?

19 A. We address four topics in our testimony. First, we will present NYSEG's forecast
20 of monthly electric deliveries and customers for the period July 2009 through
21 August 2011. The second topic of our testimony is electric revenues.
22 Specifically, the Panel will present the electric delivery revenue forecast for the
23 period July 2009 through August 2011 based on currently effective base delivery

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1 rates, establish a link between the historical Test (or base) Year (i.e., the twelve
2 months ending June 30, 2009) and the Rate Year (i.e., the twelve months ending
3 August 31, 2011) and explain the revenue adjustments reflected in Exhibit __
4 (NYSEGDRP-3), Schedule A. Third, the Panel will present the Company's
5 forecast of monthly natural gas deliveries and customers for the period July 2009
6 through August 2011. The fourth topic of our testimony is natural gas revenues.
7 Specifically, we will present the natural gas delivery revenue forecast for the
8 period July 2009 through August 2011 based on currently effective delivery rates,
9 establish a link between the Test Year and the Rate Year, and explain the revenue
10 adjustments reflected in Exhibit __ (NYSEGDRP-6), Schedule A.

11 Q. Can you please summarize how the current economic conditions have affected
12 NYSEG's deliveries?

13 A. The current recession has had a significant negative impact on NYSEG's electric
14 deliveries. Electric deliveries, weather normalized, for the period January 2009
15 through June 2009 are down 267,700 MWh (a 3.5% decrease) from the same
16 period in 2008. This decline is expected to continue as the economic outlook for
17 Upstate New York is considered grim through the Rate Year. Based on Moody's
18 Economy.com's Total Upstate Real GRP projection, the Upstate New York
19 economy will not return to 2008 levels until the end of 2012. Additionally,
20 according to Moody's Economy.com, in recent years Upstate New York has been
21 experiencing a decline in the number of Households that is expected to continue
22 at least through the Rate Year.

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1 Q. Is this Panel sponsoring any exhibits?

2 A. Yes. NYSEG's electric customer and delivery forecasts are illustrated in Exhibit

3 __ (NYSEGDRP-1). The deliveries and customer schedules include both actual

4 and weather normalized historical billed delivery data from January 1, 2008

5 through June 2009 and forecasted data from July 2009 through August 2011.

6 Exhibit __ (NYSEGDRP-2), shows the electric model specifications and the

7 results of NYSEG's validation tests of the models used to develop the forecasts of

8 monthly electric deliveries and customers. Exhibit __ (NYSEGDRP-3) presents

9 historical electric delivery revenue data for 2006, 2007, 2008, January 2009

10 through June 2009 and the Test Year (i.e., twelve months ending June 30, 2009),

11 and projected electric delivery revenue data through August 31, 2011 at current

12 rates. NYSEG's natural gas customer and delivery forecasts are illustrated in

13 Exhibit __ (NYSEGDRP-4). The deliveries and customer schedules include both

14 actual and weather normalized historical billed delivery data from January 1, 2008

15 through June 2009 and forecasted data through August 2011. Exhibit __

16 (NYSEGDRP-5), shows the natural gas model specifications and the results of

17 NYSEG's validation tests of the models used to develop the forecasts of monthly

18 gas deliveries and customers. Exhibit __ (NYSEGDRP-6) presents historical gas

19 delivery revenue data for 2006, 2007, 2008, January 2009 through June 2009, and

20 the Test Year (i.e., twelve months ending June 30, 2009), and projected natural

21 gas delivery revenue data through August 31, 2011 at current rates. Exhibit __

22 (NYSEGDRP-7) contains an index of the Panel's workpapers. A copy of the

23 workpapers was provided to Department of Public Service Staff.

DELIVERIES AND REVENUE PANEL

ELECTRIC DELIVERIES AND CUSTOMERS

1

2

Electric Deliveries Forecast

3

Q. How did the Panel forecast monthly electric billed deliveries?

4

A. We used an econometric modeling methodology to estimate the relationship between certain explanatory, or independent, variables and the dependent variable, which, in this case, is monthly billed electric deliveries by customer class.

7

8

Q. What is econometric modeling?

9

A. Econometric modeling applies statistical techniques, such as linear regression, to estimate the relationship between certain explanatory, or independent, variables and the dependent variable, which, in this case, is monthly residential customers.

10

11

12

An econometric model, also known as a linear regression model, is an estimate of a best-fit line between one dependent variable and one or more explanatory variables. The term "best-fit" refers to the line with the lowest sum of squared errors.

15

16

Q. Has NYSEG employed such a methodology for electric customer forecasting in previous rate cases?

17

18

A. Yes. NYSEG most recently used econometric modeling for electric deliveries forecasting in Case 05-E-1222.

19

20

Q. Did you use the same econometric models that you used in that case?

21

A. The general underlying assumptions with respect to the model specifications are the same with some modifications.

22

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1 Q. Please explain the modifications.

2 A. These improvements include: (1) the maximum available sample sizes, monthly
3 data from January 1980 through June 2009, were used for the Residential,
4 Commercial, Industrial and Municipal (aka Other Public Authority) class models;
5 (2) with respect to weather normalization of billed sales, the weather
6 normalization methodology is consistent with how the weather responses are
7 estimated in the forecasting models (e.g., every month is adjusted for both
8 Heating Degree Day and Cooling Degree Day variance from normal weather);
9 and (3) we have converted our definition of normal weather from a 30-year
10 normal to a 10-year normal.

11 Q. How did you develop the econometric models?

12 A. We used a computer program called MetrixND to develop the econometric
13 models. Itron, Inc. created this forecasting software specifically for utilities.
14 More than 100 utilities and independent system operators use this software,
15 including the New York Independent System Operator ("NYISO").

16 Q. What types of explanatory variables did the Panel use?

17 A. We used five categories of explanatory variables: economic variables, price
18 variables, weather variables, calendar binary variables (also known as "dummy
19 variables") and a demographic variable.

20 Q. Why did you use these five categories of explanatory variables?

21 A. Our general assumption is that monthly electric deliveries are a function of these
22 types of variables.

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1 Q. How much history was used in the database?

2 A. Monthly historical data from January 1980 through June 2009 were used for each
3 of the econometric models. This amount of history allowed for sufficient degrees
4 of freedom and efficient estimates of econometric model coefficients. Monthly
5 data also were used to improve model stability and to better model seasonality.
6 For the Interdepartmental, Borderline and Company Use classes, the last 12
7 months of actual usage were used as the forecast.

8 Q. Please describe the category of economic variables.

9 A. This category represents the fiscal health of the economy of the Upstate New
10 York area. Among the economic variables used by NYSEG are variables for
11 Income, Upstate New York Manufacturing and Non-Manufacturing Gross
12 Regional Product ("GRP") and Upstate New York Manufacturing Employment.

13 Q. How did you obtain the economic variable data?

14 A. Moody's Economy.com provided all the data.

15 Q. What is Moody's Economy.com?

16 A. Moody's Economy.com is a nationally recognized independent provider of
17 economic analysis, data and forecasting services. It has over 500 clients in 50
18 countries, including governments at all levels, utilities, commercial and
19 investment banks, insurance companies, financial services firms, manufacturers,
20 money managers, and industrial and technology constituents. Among its vast
21 clientele are: the major New York utilities; the NYISO; ISO New England Inc.;
22 and numerous federal government bodies.

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1 Q. What is the release date of the economic forecasts provided by Moody's
2 Economy.com that were used to prepare the Company's electric delivery forecasts
3 presented in this testimony?

4 A. We used August 2009 forecasts from Moody's Economy.com.

5 Q. What are price variables?

6 A. Price variables are electric prices. The electric prices used by this Panel are the
7 actual average retail sales prices (sales revenues divided by sales units) for each
8 customer class during the period January 1980 through June 2009 adjusted by
9 specific price indices or deflators. In particular, electric prices are deflated by the
10 Consumer Price Index for the residential class, adjusted by the GDP implicit price
11 deflator for the commercial and municipal classes, and adjusted by the Producer
12 Price Index for the industrial class.

13 Q. What are weather variables?

14 A. Weather variables measure billing month heating and cooling degree days and
15 variations from normal billing month heating and cooling degree days. The term
16 "normal degree days" is defined as a rolling 10-year normal (1999-2008) of
17 degree days ending with the last complete calendar year of actual data. Using a
18 10-year normal weather is consistent with the recent switch by the U.S.
19 Department of Energy's Energy Information Administration ("EIA") from a 30-
20 year to a 10-year average to define normal weather for forecasting purposes and
21 the Commission's June 22, 2009 Order Adopting Recommended Decision with
22 Modifications in Cases 08-E-0887 and 08-G-0888.

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1 Q. How did the Panel obtain the weather variables?

2 A. The Binghamton, Buffalo, Syracuse, and Albany, New York, and Burlington,
3 Vermont stations of the National Weather Service provided the weather data. A
4 composite weather variable was constructed by using a weighted average that
5 reflects billed deliveries in each area.

6 Q. What are binary variables?

7 A. Binary variables, also referred to as Dummy variables, take a value of "1" when a
8 condition is present and assume a value of "0" when the condition is not present.
9 For example, a variable called "January" takes a value of "1" in January and "0" in
10 any other month. Binary variables are merely shape variables and do not
11 represent any underlying trends.

12 Q. Did the Panel use any other types of binary variables?

13 A. Yes, specific year-month binary variables were used for the months of March
14 2006 and April 2006 in the commercial, industrial and municipal models to
15 correct for a billing issue between those two months. Additionally, a binary
16 variable for August 2005 was used in the street lighting model to correct for an
17 anomalous data point.

18 Q. What demographic variable did the Panel use?

19 A. The demographic variable was the number of residential customers per month.

20 Q. Please identify the explanatory variables that you used from these five categories
21 to develop the total electric deliveries forecast for the residential class.

22 A. For the residential class, we used variables representing the number of residential
23 customers, Real Disposable Personal Income, Real Residential Price, Billing

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1 month Heating and Cooling Degree Day variations from normal weather,
2 Monthly binary variables and the number of billing days in the month. Our
3 dataset consisted of monthly historical data from January 1980 through June
4 2009.

5 Q. What is the average annualized growth rate for the residential class total deliveries
6 for the forecast period?

7 A. The average annualized growth rate for residential billed deliveries between the
8 Test Year (ending June 2009), weather normalized, and the Rate Year (ending
9 August 2011) is -0.4%.

10 Q. What was the next step after the residential billed deliveries forecast was created?

11 A. The residential deliveries were then allocated among service classifications
12 ("SCs") based on the last 12 months of billing data. As discussed later in this
13 testimony, the SC units are then used to calculate the forecasted delivery revenues
14 at existing rates.

15 Q. What specific variables are used in your historical monthly database to develop
16 the total electric deliveries forecast for the commercial class?

17 A. The database contained variables for Real Non-Manufacturing Gross Regional
18 Product ("GRP"), Real Commercial Price, number of residential customers,
19 Billing month Heating and Cooling Degree Day variations from normal weather,
20 Monthly binary variables and the number of billing days in the month. The
21 Panel's dataset consisted of monthly historical data from January 1980 through
22 June 2009, for the reasons provided earlier in our testimony.

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1 Q. Why did you include a variable for the number of residential customers as a driver
2 of commercial deliveries?

3 A. NYSEG's service territory is primarily rural in nature. As such, most of NYSEG's
4 commercial customers are relatively small. The size of these customers is
5 confirmed by the fact that more than 96% of NYSEG's commercial customers
6 take secondary service (i.e., voltage requirement of 120 to 480 volts), and more
7 than 65% of those customers have demand requirements of 5 kilowatts ("kW") or
8 less. The success of small, rural commercial businesses is largely determined by
9 the economic well-being of their clientele. Their clientele is comprised, for the
10 most part, of NYSEG's residential customer class. For these reasons, simply
11 using the Upstate Non-Manufacturing GRP variable, which largely reflects the
12 financial strength of NYSEG's large commercial customers, without the number
13 of total residential customers would miss an important element of NYSEG's
14 service territory. Instead, the combination of the Upstate Non-Manufacturing
15 GRP and the number of total residential customers, a demographic variable
16 specific to NYSEG's service territory, is the better collective indicator of the
17 economic health of the Company's commercial customers.

18 Q. What is the commercial class deliveries growth rate for the forecast period?

19 A. The average annualized growth rate between the Test Year (ending June 2009),
20 weather normalized, and the Rate Year (ending August 2011) is -0.35%.

21 Q. What did you do after determining the commercial class deliveries forecast?

22 A. We then allocated the commercial delivery units among the SCs using historical
23 monthly distributions to calculate revenues.

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1 Q. What particular variables did you include in your historical monthly database to
2 develop the total electric billed deliveries forecast for the industrial class?

3 A. The database consisted of variables for Upstate New York Real Manufacturing
4 GDP, Upstate New York Manufacturing Employment, Real Industrial Price,
5 billing month Cooling Degree Day variations from normal weather, Monthly
6 binary variables and the number of billing days in the month.

7 Q. What is the total industrial class deliveries growth rate over the forecast period?

8 A. The average annualized growth rate between the Test Year (ending June 2009),
9 weather normalized, and the Rate Year (ending August 2011) is -3.11%

10 Q. How did the Panel allocate deliveries once you determined the industrial class
11 deliveries forecast?

12 A. We allocated industrial deliveries among the SCs using historical monthly
13 delivery distributions for revenue calculations.

14 Q. What specific explanatory variables did you use to develop the total electric
15 deliveries forecast for the municipal (e.g., other public authority) class?

16 A. We used the following variables: number of residential customers, Real
17 Municipal Price, Billing month Heating and Cooling Degree Day variations from
18 normal weather, Monthly binary variables and the number of billing days in the
19 month. For the reasons described earlier, the Panel's dataset consisted of monthly
20 historical data from January 1980 through June 2009.

21 Q. Why did the Panel include number of residential customers?

22 A. The basis of the assumption is that a municipal customer, which includes town/
23 village offices and schools, will grow or decline based on the population they

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1 serve. Their clientele is comprised, for the most part, of NYSEG's residential
2 customers, therefore, it is appropriate to include NYSEG residential customers as
3 an explanatory variable for municipal class delivery growth.

4 Q. What was the next step after estimating the municipal class deliveries forecast?

5 A. We made an out-of-model adjustment for a single large municipal customer who
6 will be converting most of its load from NYSEG delivery service to self-
7 generation in the Fall of 2009.

8 Q. Please explain this out-of-model adjustment.

9 A. One of our largest municipal customers will be switching over to self-generation
10 in the fall of 2009 and will significantly reduce their required delivery load from
11 NYSEG. This event is neither reflected in the historical billed deliveries data nor
12 is it captured by the econometric model output. An out-of-model adjustment is
13 therefore needed to reflect this loss of load.

14 Q. How was the out-of-model adjustment calculated?

15 A. We computed the difference between the customer's billed deliveries for the last
16 12 months and their expected delivery levels once they convert to self-generation.
17 This difference was then subtracted from the monthly municipal billed deliveries
18 forecast.

19 Q. What is the municipal class deliveries growth rate over the forecast period?

20 A. The average annualized growth rate between the Test Year (ending June 2009),
21 weather normalized, and the Rate Year (ending August 2011) is -4.69%

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1 Q. What was the next step after determining the municipal class billed deliveries
2 forecast?

3 A. The municipal deliveries were then allocated among the SCs using historical
4 monthly delivery distributions for revenue calculations.

5 Q. Please describe the explanatory variables that the Panel used to develop the total
6 electric deliveries forecast for the street lighting class.

7 A. The street lighting total deliveries forecast is based upon an econometric model
8 that utilizes the average monthly burning hours, outlined in the Company's tariff,
9 as the main explanatory variable. Additionally, a generic trend variable and
10 monthly binary variables were used in the model specifications.

11 Q. What is the street lighting class deliveries growth rate over the forecast period?

12 A. The average annualized growth rate between the Test Year (ending June 2009)
13 and the Rate Year (ending August 2011) is -3.88%

14 Q. How did the Panel develop the total electric deliveries forecast for the
15 Interdepartmental, Borderline and Company Use classes?

16 A. The Interdepartmental, Borderline and Company Use delivery forecasts are set at
17 the actual delivery levels from the historical last 12 months of actual use.

18 Q. Please summarize the total electric billed deliveries forecast for the NYSEG
19 service territory.

20 A. Based on the forecasts that we have described, NYSEG expects that the overall
21 electric deliveries volume will decrease, on average, by -1.4% annualized
22 between the Test Year (ending June 2009), weather normalized, and the Rate
23 Year (ending August 2011). The electric deliveries forecast is illustrated in

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1 Exhibit __ (NYSEGDRP-1). Historical actual and weather normalized deliveries
2 from January 2008 through June 2009 and forecasted deliveries from July 2009
3 through August 2011 are presented in the exhibit. This electric deliveries forecast
4 is based heavily on economic variables, and the forecast may be subject to update
5 to reflect changes in economic conditions, especially given the extreme
6 uncertainty in the current economy.

7 **Electric Customer Forecast**

8 Q. Please describe the development of the electric customer forecast for the
9 residential customer class.

10 A. The number of residential customers is forecasted with an econometric model that
11 uses Moody's Economy.com's forecast of the number of households in Upstate
12 New York as the main explanatory variable.

13 Q. Why is econometric modeling appropriate for the residential customer class?

14 A. In the case of residential customers, the number of residential customers is highly
15 correlated, and dependent upon, the number of households in Upstate New York.
16 This causal relationship can be very accurately estimated using econometric
17 modeling. It follows then that an accurate forecast of Upstate New York
18 households, as provided by Moody's Economy.com, would then yield an accurate
19 forecast of residential customers.

20 Q. What is the growth rate of residential customers over the forecast period?

21 A. The average annualized growth rate between the Test Year (ending June 2009)
22 and the Rate Year (ending August 2011) is -0.17%.

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1 Q. How did the Panel develop the electric customer forecasts for the non-residential
2 customer classes, which include the commercial, municipal (aka public authority),
3 industrial and street lighting classes?

4 A. We developed the electric customer forecasts using exponential smoothing
5 models for each customer class.

6 Q. Why are exponential smoothing models appropriate for those classes?

7 A. An exponential smoothing model is a univariate, or one variable, forecasting
8 method that is widely used in business forecasting. This methodology allows us
9 to capture both trend and seasonal components that exist in the customer counts of
10 these non-residential classes.

11 Q. What is the growth of commercial, municipal (aka public authority), industrial
12 and street lighting classes over the forecast period?

13 A. The average annualized growth rate between the Test Year (ending June 2009)
14 and the Rate Year (ending August 2011) for the commercial class is 1.12%. The
15 average annualized growth rate between the Test Year (ending June 2009) and the
16 Rate Year (ending August 2011) for the municipal class is 1.31%. The average
17 annualized growth rate between the Test Year (ending June 2009) and the Rate
18 Year (ending August 2011) for the industrial class is -2.66%. The average
19 annualized growth rate between the Test Year (ending June 2009) and the Rate
20 Year (ending August 2011) for the street lighting class is 0.02%.

21 Q. What are the results of your electric customer forecast overall?

22 A. The electric customer forecast is illustrated in Exhibit __ (NYSEGDRP-1),
23 Schedule B. Historical actual number of customers from January 2008 through

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1 June 2009 and the forecasted number of customers from July 2009 through
2 August 2011 are presented in the exhibit. Based on the forecasts we have
3 described, NYSEG expects the overall electric customers to decrease on average,
4 by -0.01% annually between the Test Year (ending June 2009) and the Rate Year
5 (ending August 2011)

Model Validation

7 Q. How did the Panel validate the models used to develop the forecasts of monthly
8 electric deliveries and customers?

9 A. The Panel analyzed "Goodness of Fit" tests to determine what percentage of the
10 variation in the dependent variable can be explained by the explanatory variables
11 that we selected. Stated in another way, these tests check a model's summary
12 statistics that can explain how well the model fits, or explains, a dataset. The first
13 test statistic is called the Coefficient of Determination, better known as the R-
14 squared. An R-squared value of 1 means that the dependent variable is, on
15 average, completely explained by the explanatory variables, while a value of 0
16 means that no explanatory relationship between the dependent variable and the
17 independent variables can be estimated from the sample data. The second test
18 statistic is called the Mean Absolute Percent Error ("MAPE"). The MAPE is the
19 ratio of the absolute value difference between the monthly forecast value derived
20 from the model and the actual monthly value over the entire dataset of actual
21 values. The smaller the MAPE, the better. A model that results in a high R-
22 squared value and a small MAPE is said to have "strong summary statistics."

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1 Q. What are the results of your validation tests?

2 A. The test results and model specifications are shown in Exhibit __ (NYSEGDRP-
3 2). They establish that the econometric models used by NYSEG for electric
4 forecasting have very strong summary statistics and fit the dataset well.

5 **ELECTRIC DELIVERY REVENUES**

6 Q. Please describe how the forecast Billed Electric Delivery Revenues are calculated
7 in Exhibit __ (NYSEGDRP-3), Schedule A.

8 A. A four-step process is used to calculate the forecasted monthly Billed Electric
9 Delivery Revenues for each customer class (e.g., residential, commercial) and
10 service class. Once the delivery revenues are calculated, they are summarized by
11 customer class as set forth in the Exhibit __ (NYSEGDRP-3), Schedule A.

12 Q. What is the first step?

13 A. The first step of the electric revenue forecast is to incorporate our forecasted
14 deliveries and electric customers by SC, and customer class, by month, into a
15 revenue model. The monthly forecasted kilowatt hour ("kWh") sales are allocated
16 to on-peak, mid-peak, and off-peak for applicable SCs based on historical
17 distributions. Demand ("kW") was developed looking at historical kW by SC and
18 allocating kW units to the applicable SCs. Reactive ("rkvah") was also developed
19 looking at historical rkvah by SC and allocating rkvah to the applicable SCs.
20 Separately, the monthly kWh sales, kW, rkvah, and customer counts (i.e.,
21 collectively, the billing determinants) are forecasted by month, for each service
22 class.

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1 Q. Please describe the second step.

2 A. Once the deliveries and customers have been allocated to the appropriate SC by
3 month, the current tariff base delivery rates are applied to the forecasted monthly
4 billing determinants to develop the Gross Base Delivery revenue amounts by SC.

5 Q. What does the third step include?

6 A. The forecasted deliveries, where applicable are multiplied by the forecasted
7 System Benefits Charge ("SBC") Surcharge, Energy Efficiency Portfolio
8 Standards ("EEPS") Surcharge, Renewable Portfolio Standards ("RPS")
9 Surcharge, and Temporary State Assessment Surcharge ("TSAS").

10 Q. What is the final step in developing the electric forecast revenues?

11 A. The resulting tariff revenue amounts are then multiplied by a revenue tax to
12 determine the total delivery revenue amounts, per month, per SC. These revenues
13 are included in the line item labeled "Revenue Taxes".

14 Q. Please list and describe the SCs that are used by the Company to price the
15 delivery revenues.

A. SCs included in P.S.C. No. 120 include:

- SC # 1 - Residential Regular
- SC # 8 - Residential Day-Night
- SC #12 - Residential Time of Use
- SC #6 - General Service Regular
- SC # 9 - General Service Day-Night
- SC # 2 - General Service-w/Demand
- SC # 2 HLF - General Service-w/Demand
- SC # 3P - Primary Service
- SC # 3P HLF - Primary Service (HLF)
- SC # 3S - Subtransmission Service
- SC # 7-1 I/HLF - General Service-Time of Use

DELIVERIES AND REVENUE PANEL

- SC #7-1 - General Service-Time of Use
- SC # 7-2 - Primary Service-Time of Use
- SC # 7-2 I/HLF - Primary Service-Time of Use
- SC # 7-3 - Subtransmission-Time of Use
- SC # 7-3 I/HLF - Subtransmission-Time of Use
- SC # 7-4 - Transmission-Time of Use
- SC # 7-4 I/HLF - Transmission-Time of Use
- SC #11 - Standby Service
- SC # 5 - Outdoor Lighting

SCs included in P.S.C. No. 121 include:

- SC #1 - Street Lighting Service with contributory provisions (grandfathered)
- SC #2 - Street Lighting Service-Customer Owned Equipment
- SC #3 - Standard Street Lighting Service

- 1 Q. Please describe Exhibit __ (NYSEGDRP-3).
- 2 A. Exhibit __ (NYSEGDRP-3), Schedule A, Page 1 of 7 shows the actual delivery
- 3 revenues for calendar year 2006; Page 2 of 7 shows the actual delivery revenues
- 4 for calendar year 2007; Page 3 of 7 shows the actual delivery revenues for
- 5 calendar year 2008; Page 4 of 7 shows actual revenues for January-June 2009;
- 6 Page 5 of 7 shows the actual revenues for the Test Year, 12 months ended June
- 7 30, 2009; Page 6 of 7 shows forecasted Rate Year revenues, 12 months ended
- 8 August 31, 2011; and Page 7 of 7 shows a summary of the Test Year and the Rate
- 9 Year.
- 10 Q. Please describe the Test Year revenues as shown on Exhibit __ (NYSEGDRP-3),
- 11 Schedule A, Page 4 of 7.
- 12 A. The Test Year revenues include revenues for the period July 1, 2008 through June
- 13 30, 2009. These revenues include Net Base Delivery revenues, Low Income

DELIVERIES AND REVENUE PANEL

1 Discounts, Economic Development Discounts, SBC Surcharge, RPS Surcharge,
2 Merchant Function Charge – Delivery, and Revenue Taxes. The EEPS Surcharge
3 became effective October 1, 2008, and these revenues are included in the October
4 2008 through June 30, 2009 Test Year revenues.

5 Q. Do the Rate Year revenues include similar revenues as the Test Year?

6 A. Yes, with two exceptions. The EEPS Surcharge went into effect October 1, 2008
7 and, thus, is not included in July-September of the Test Year revenues. The
8 TSAS Surcharge went into effect July 1, 2009, and is not included in the Test
9 Year revenues.

10 Q. Please describe the line item labeled Borderline.

11 A. Borderline revenues are revenues received by the Company for sales of electric
12 service to neighboring utilities for certain customers located within the bordering
13 utilities' franchise territories. Because of the proximity of NYSEG's electric
14 distribution facilities to those customers' properties, it may be more economical
15 for NYSEG rather than the bordering utility to provide service. In such cases,
16 NYSEG bills the neighboring utility under an appropriate tariff.

17 Q. What is the Merchant Function Charge and who is it applicable to?

18 A. The Merchant Function Charge is a charge to recover the costs of electric supply
19 procurement activities associated with procuring commodity for NYSEG full
20 requirements customers taking service under the Company's supply service. This
21 is a charge applied to the total kWh for each full requirements customer.

DELIVERIES AND REVENUE PANEL

1 Q. How were Merchant Function Charge – Delivery Revenues calculated for the
2 forecast?

3 A. The Merchant Function Charge was updated based on NYSEG supply units as of
4 twelve months ending June 30, 2009. The rate was then applied to the Rate Year
5 units to collect \$14 million in delivery revenues. The NYSEG electric Merchant
6 Function Charge rate has a commodity component as well as a delivery
7 component. The commodity component was excluded from the revenue forecast.
8 For the forecast, uncollectibles assigned to the Merchant Function Charge and
9 working capital on purchased power are considered the only commodity
10 components.

11 Q. What does Revenue Taxes represent?

12 A. This line item represents a delivery revenue surcharge to provide recovery of
13 gross revenue taxes paid by the Company to New York State and various
14 municipalities.

15 Q. What is included in the line item Net Base Delivery revenues?

16 A. Net Base Delivery revenues consist of the following: customer charge, demand
17 (kW) charge, volumetric (kWh) delivery charges, reactive charge, Low Income
18 Discounts, and Economic Development Discounts.

19 Q. Please describe how Base Delivery revenues are addressed in the forecast for Flex
20 Contract customers.

21 A. Billing determinants for Flex Contract customers are included in the otherwise
22 applicable service class ("OASC") billing determinants. The billing determinants
23 are then priced out at the current tariff delivery rates as described in Step 2 above.

DELIVERIES AND REVENUE PANEL

1 Discounts for Flex customers are included in the Economic Development

2 Discounts total.

3 Q. Does NYSEG have any other customers with special contracts?

4 A. Yes. NYSEG delivers energy to customers who purchase supply from the New
5 York Power Authority ("NYPA"). The delivery revenues for NYPA customer
6 loads are calculated looking at the individual billing determinants for the last 12
7 months of billing data. A delivery revenue forecast is then developed taking into
8 consideration the contract end date for each customer, and also any forecasted
9 changes.

10 Q. What NYPA programs are included in the forecast?

11 A. NYPA programs include Economic Development Power, NYPA Expansion
12 Power, and NYPA Replacement Power. The Power For Jobs ("PFJ") program is
13 scheduled to end May 15, 2010, as amended by Article 6 of Section 189 of the
14 Economic Development Law. Therefore, NYPA PFJ was not included in the Rate
15 Year revenue forecast.

16 Q. Please explain the difference in Billed Electric Delivery Revenues in Exhibit____
17 (NYSEGDRP-3), Schedule A, Page 7 of 7, between the Test Year and Rate Year
18 revenues.

19 A. The total adjustment between the Test Year and the Rate Year is an increase of
20 \$47,028,000, which is attributed to the following:

21 a) Gross Base Delivery Revenues - \$8,750,000 decrease. This decrease is
22 due to a decrease in deliveries.

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- 1 b) Low Income Discounts - \$4,992,000 decrease. This decrease incorporates
2 a proposed level of discounts, as testified by the Customer Service Panel.
- 3 c) Economic Development Discounts - \$9,841,000 increase due to change in
4 program participation.
- 5 d) SBC Surcharge - \$919,000 decrease.
- 6 e) EEPS Surcharge - \$16,433,000 increase. As discussed earlier, EEPS was
7 not in effect the first three months of the Test Year. The EEPS rate for
8 October-June of the Test Year was \$.0015 per kWh. The Rate Year was
9 increased to \$.0022 per kWh to collect for the anticipated expense level.
- 10 f) RPS Surcharge – \$5,001,000 increase. This increase is due to an increase
11 in the RPS rate. The RPS rate for the period 7/1/08-9/30/08 was \$.0005
12 per kWh and from 10/1/08-6/30/09, the rate was \$.0007. The RPS rate for
13 September 2010 is \$.0009 and 10/1/09-9/30/11 is \$.0010.
- 14 g) Merchant Function Charge-Delivery - \$3,588,000 decrease. For the Test
15 Year, the Merchant Function Charge - Delivery rate was applied to the
16 applicable kWh delivery units to produce Merchant Function Charge -
17 Delivery revenues. The Merchant Function Charge - Delivery revenues
18 for the Rate Year were established as described earlier.
- 19 h) TSAS Surcharge - \$29,687,000 increase. As explained above, this charge
20 became effective 7/1/09, and was not included in the Test Year.
- 21 i) Revenue Taxes - \$4,315,000 increase. The Test Year includes Transition
22 Surcharge revenues which were negative for certain service classes. The

DELIVERIES AND REVENUE PANEL

1 Rate Year does not include Transition Surcharges, so the Revenue Tax is
2 calculated on higher revenues.

3 **NATURAL GAS DELIVERIES, CUSTOMERS**
4 **AND TRANSPORTATION FORECAST**

5 **Natural Gas Deliveries Forecast**

6 Q. What methodology did the Panel use to forecast monthly natural gas billed
7 deliveries?

8 A. Residential, industrial, commercial and municipal sales forecasts were developed
9 using econometric models. For the residential class, we estimated average use per
10 customer and for the industrial, commercial and municipal classes our models
11 were based on total billed deliveries.

12 Q. Did you use the same computer software that was used to develop the electric
13 forecasting models?

14 A. Yes. We utilized the same MetrixND computer software that we used to develop
15 the electric econometric models.

16 Q. Why did you use these two types of econometric models?

17 A. They enabled us to use the applicable price, economic and binary variables for
18 each customer class.

19 Q. Are these the same categories of variables that you used to forecast monthly
20 electric deliveries, as discussed previously by the Panel?

21 A. Yes, with two differences.

DELIVERIES AND REVENUE PANEL

1 Q. What is the first difference?

2 A. We did not use a demographic variable for the residential use per customer model.
3 For the residential class, we used a residential use per customer model. The
4 forecasted number of residential customers is multiplied by the forecasted
5 residential average use per customer to determine the forecasted monthly
6 residential billed deliveries forecast.

7 Q. What is the second difference?

8 A. For the natural gas deliveries forecast we used an empirical method of weather
9 normalization. We employed this methodology to better analyze the historical
10 data and calculate true growth rates. Using this method the historical data is
11 weather normalized and then brought into the model. For this reason it is not
12 necessary to include a weather variable in the model and it allows consistency of
13 application for each customer class.

14 Q. Please describe the natural gas weather normalization methodology used by the
15 panel.

16 A. We used billing month weather for the residential, commercial, municipal and
17 industrial classes. The first step is to take the actual deliveries for each year and
18 subtract the base load deliveries. The term "base load" is defined as the average
19 of the non-weather related deliveries during the two months having the lowest
20 level of gas consumption observed during the calendar year. The second step is to
21 divide the remaining (weather related) deliveries load by the actual billing month
22 heating degree days. This yields the actual weather response per heating degree
23 day for the billing month. The third step is to multiply the quotient by the normal

DELIVERIES AND REVENUE PANEL

1 billing month heating degree days. The term "normal degree days" in this context
2 is defined as the 10-year rolling average (1999-2008) of degree days for any given
3 calendar day as obtained from NOAA. The last step is to add the base load that
4 was originally removed.

5 Q. Please explain the residential sales forecasting model.

6 A. The residential model relates weather normalized use per customer to price. Total
7 residential deliveries are determined by multiplying the estimated average use by
8 the estimated number of residential customers to determine the monthly
9 residential billed deliveries forecast for the rate year.

10 Q. Why was an average use per customer model used instead of a billed delivery
11 model to estimate residential sales?

12 A. Within the natural gas industry it is a generally accepted methodology to use
13 average use per customer to estimate residential sales.

14 Q. What specific explanatory variables did the Panel employ in the average use per
15 customer econometric model that developed the residential natural gas deliveries
16 forecast?

17 A. We used the following variables: Real Residential Price, Monthly binary
18 variables, the number of billing days in the month and a generic trend variable.

19 Q. What is the expected average annualized growth rate for the residential class?

20 A. The average annualized growth rate for the residential class between the Test
21 Year (ending June 2009), weather normalized, and the Rate Year (ending August
22 2011) is -0.23%.

DELIVERIES AND REVENUE PANEL

1 Q. How were the commercial, industrial and municipal sales forecasts developed?

2 A. We used econometric modeling that relates monthly deliveries to economic and
3 price related drivers.

4 Q. What dependent variables are included in the commercial, industrial and
5 municipal delivery models?

6 A. The database for the weather-normalized commercial class consisted of the
7 following variables: Real Commercial Price, Real GDP Non-Manufacturing, the
8 number of billing days in the month and monthly binary variables. The database
9 for the weather-normalized industrial class consisted of the following variables:
10 Upstate Employment Manufacturing, Real Industrial Price and monthly binary
11 variables. The database for the weather-normalized municipal class consisted of
12 the following variables: Real Municipal Price, Upstate Households and monthly
13 binary variables.

14 Q. Why did the Panel include number of Households for the municipal class?

15 A. The basis of the assumption is that a municipal customer, which includes town/
16 village offices and schools, will grow or decline based on the population they
17 serve. Their clientele is comprised, for the most part, of NYSEG's residential
18 customers. Upstate Households are a major driver in forecasting residential
19 customers. Therefore, it is appropriate to include Upstate Households as an
20 explanatory variable for municipal class delivery growth.

21 Q. Did you make any out of model adjustments to the Municipal forecast?

22 A. Yes. In July 2009, a large gas customer by-passed the NYSEG distribution
23 system and started taking gas directly from a transmission company. Since this

DELIVERIES AND REVENUE PANEL

1 action is not reflected in the historical data, an out of model adjustment was made
2 to reduce the forecasted Municipal sales.

3 Q. What are the average annualized growth rates for the commercial, industrial and
4 municipal classes?

5 A. The average annualized growth rates between the Test Year (ending June 2009)
6 and the Rate Year (ending August 2011) are -2.23% for the commercial class, -
7 2.85% for the industrial class and -9.07% for the municipal class.

8 Q. What are the results of your total natural gas deliveries forecast?

9 A. Based on the forecasts that we have described, NYSEG expects that the overall
10 natural gas deliveries volume will decrease, by -2.30% annualized for the Test
11 Year (ending June 2009), weather normalized deliveries, compared to the Rate
12 Year (ending August 2011). The natural gas deliveries forecast is shown in
13 Exhibit __ (NYSEGDRP-4), Schedule A. Historical weather normalized
14 deliveries from January 1, 2008 through June 30, 2009 and forecasted deliveries
15 from July 1, 2009 through August 2011 are presented in this exhibit. This gas
16 delivery forecast is based heavily on economic variables, and the forecast may be
17 subject to update to reflect changes in economic conditions, especially given the
18 uncertainty in the current economy.

19 **Natural Gas Customer Forecast**

20 Q. How did the Panel develop the natural gas customer forecast for the residential
21 customer class?

22 A. The number of residential customers is forecasted with an econometric model that
23 uses Moody's Economy.com's forecast of the number of households in Upstate

DELIVERIES AND REVENUE PANEL

1 New York as the main explanatory variable. The R-squared statistic on this
2 model is equal to almost 1, which means that, on average, the model explains
3 almost 100% of the variation in residential customers. In addition, the model
4 produces an extremely low Mean Absolute Percent Error (MAPE) of 0.22%.

5 Q. What is the release date of the forecasts provided by Moody's Economy.com that
6 were used to prepare the Company's gas customer forecasts?

7 A. The forecasts from Moody's Economy.com were released in August 2009.

8 Q. What is the growth of residential customers over the forecast period compared to
9 the Test Year?

10 A. The average annualized growth rate for the Test Year (ending June 2009)
11 compared to the Rate Year (ending August 2011) is -0.55%.

12 Q. How did the Panel develop the natural gas customer forecast for commercial,
13 industrial and municipal classes?

14 A. We developed the natural gas customer forecast for these classes by applying the
15 historical customer data to an exponential smoothing model. An exponential
16 smoothing model is a univariate, or one variable, forecasting method that is
17 widely used in business forecasting.

18 Q. What are the growth rates of the commercial, industrial and municipal classes
19 over the forecast period compared to the Test Year?

20 A. The average annualized growth rate for the Test Year (ending June 2009)
21 compared to the Rate Year (ending August 2011) for the commercial class is
22 0.59%. The average annualized growth rate for the Rate Year compared to the

DELIVERIES AND REVENUE PANEL

1 Test Year for the industrial class is -1.07%. The average annualized growth rate
2 for the Test Year compared to the Rate Year for the municipal class is 1.60%.

3 Q. What number of natural gas customers are you forecasting for the Rate Year?

4 A. The natural gas customer forecast is illustrated in Exhibit __ (NYSEGDRP-4),
5 Schedule B. The historical actual number of customers from January 1, 2008
6 through June 30, 2009 and the forecasted number of customers from July 1, 2009
7 through August 2011 are presented in the exhibit. Based on the forecasts we have
8 described, NYSEG expects the overall natural gas customers to remain relatively
9 flat for 2009, 2010 and through August 2011.

10 **Transportation Forecast**

11 Q. How did the Panel develop its forecast of the number of natural gas transportation
12 customers by customer class?

13 A. This forecast predicts the number of customers in NYSEG's service territory, by
14 customer class, obtaining natural gas service from a natural gas provider other
15 than NYSEG. The Panel developed our natural gas transportation customer count
16 forecast using an exponential smoothing model for each customer class. This is a
17 common approach to use when underlying theories of what is being modeled are
18 not well established, such as transportation service forecasting. The
19 transportation customer forecasts were then multiplied by the weather-
20 normalized, average use per transportation customer for the same month in the
21 preceding 12 months for each class. For example, the residential transportation
22 customer forecast for July 2009 was then multiplied by the residential weather-
23 normalized average use per transportation customer from July 2008 to generate

DELIVERIES AND REVENUE PANEL

1 the July 2009 residential transportation delivery forecast. The sales (i.e., those
2 customers taking natural gas service from NYSEG) customer and delivery
3 forecasts were then calculated as the total customer and delivery forecasts less the
4 transportation customer and delivery forecasts for that class.

5 Q. What did you do after determining the residential, commercial, industrial and
6 municipal class sales and transportation deliveries forecasts?

7 A. We then allocated the sales and transportation deliveries and customers among the
8 SCs using historical monthly distributions to calculate revenues.

9 Q. What are the results of your transportation forecast?

10 A. The forecasted number of transportation customers illustrated in Exhibit __
11 (NYSEGDRP-4), Schedule B, and the forecasted natural gas usage of those
12 customers is illustrated in Exhibit __ (NYSEGDRP-4), Schedule A.

13 **Model Validation**

14 Q. Did the Panel validate the models used to develop the forecasts of monthly natural
15 gas deliveries?

16 A. Yes. As with our validation of the models used to develop the forecasts of
17 monthly electric deliveries and customers, we validated our natural gas models
18 using the same "Goodness of Fit" tests.

19 Q. What are the results of your validation tests?

20 A. The results and model specifications are shown in Exhibit __ (NYSEGDRP-5),
21 Schedule A. They establish that the models used for natural gas forecasting have
22 very strong summary statistics.

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GAS DELIVERY REVENUES

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Q. Please provide a brief description of the NYSEG gas service classes (SCs).

A. NYSEG has customers taking service under the following SCs: SC-1S (Residential Service), SC-2S (General Service), SC-3S (Interruptible Sales Service), SC-5S (Seasonal Gas Cooling Service), SC-9S (Industrial Manufacturing or Processing Purposes), SC-1T (Firm Transportation Service), SC-2T (Interruptible Transportation Service), SC-5T (Small Firm Transportation Service), SC-7T (Firm or Limited Firm Negotiated Transportation Service), SC-13T (Residential Firm Aggregation Transportation Service), SC-14T (Non-Residential Firm Aggregation Transportation Service).

Q. Please describe how the Billed Gas Delivery Revenues are calculated in Exhibit ____ (NYSEGDRP-6), Schedule A.

A. A five-step process is used to calculate the forecasted monthly Billed Gas Delivery Revenues as set forth in Exhibit __ (NYSEGDRP-6), Schedule A.

Q. What is the first step?

A. The first step of the gas delivery revenue forecast is to incorporate the forecasted deliveries and customers for SC-1S, SC-2S, SC-5S, SC-9S, SC-1T, SC-5T, SC-13T and SC-14T into the Delivery Revenue Model. The monthly forecasted delivery volumes are allocated to the gas rate blocks established in NYSEG's gas tariff based on distributions derived from block analyses covering July 2008 to June 2009. Forecasted deliveries by block are then multiplied by the current tariff rates as of October 1, 2008, for the respective SCs, and the customer count is multiplied by the fixed monthly charge, to derive forecasted base delivery

DELIVERIES AND REVENUE PANEL

1 revenues. The forecasted deliveries and natural gas customers and resulting
2 delivery revenues are loaded into the Gas Revenue Model.

3 Q. Please describe the second step.

4 A. In the Delivery Revenue Model, the forecast sales for SC-3S, SC-2T and SC-7T
5 are multiplied by either average contract rates or average historical delivery rates
6 by rate area. The forecasted deliveries and natural gas customers and resulting
7 delivery revenues are loaded into the Gas Revenue Model.

8 Q. What is the third step?

9 A. The calculated distribution revenues by SC are then allocated to Revenue Class
10 based on the deliveries forecast data.

11 Q. What is the fourth step?

12 A. The forecasted deliveries, where applicable, are multiplied by the forecasted
13 Merchant Function Charge rate, the EEPS Surcharge rate, the TSAS Surcharge
14 rate, the Delivery component of the Transition Surcharge and the R&D Surcharge
15 rates.

16 Q. What is the fifth step in developing the Billed Gas Delivery Revenue forecast?

17 A. The last step is to apply the gross revenue tax rates to the delivery revenues using
18 the actual revenue tax rates for service type (sales vs. transportation) and
19 customer type (residential vs. non-residential).

20 Q. Please describe Exhibit __ (NYSEGDRP-6).

21 A. Exhibit __ (NYSEGDRP-6), Schedule A, page 1 of 7, shows 2006 delivery
22 revenues per month. Page 2 of 7 shows 2007, page 3 of 7 shows 2008, and page 4
23 of 7 shows January 2009 through June 2009 revenues per month. Schedule A,

DELIVERIES AND REVENUE PANEL

1 page 5 of 7, shows the actual revenues for the Test Year, the 12 months ended
2 June 30, 2009. Schedule A, page 6 of 7, shows forecasted revenues for Rate
3 Year, the 12 months ended August 31, 2011. Schedule A, page 7 of 7, shows a
4 summary of the Test Year and the Rate Year.

5 Q. What does the line item labeled Gross Base Delivery Charges represent in Exhibit
6 ____ (NYSEGDRP-6), Schedule A?

7 A. The line item labeled Gross Base Delivery Charges represents fixed monthly
8 customer charges (including bill issuance charge) and the volumetric block
9 delivery charges at standard (non-discounted) rates.

10 Q. What do the line items labeled "less: Low Income Discounts" and "less:
11 Economic Development Discounts" represent in Exhibit __ (NYSEGDRP-6),
12 Schedule A?

13 A. The line items labeled "less: Low Income Discounts" and "less: Economic
14 Development Discounts" represent forecasted discounts for these programs, as
15 discussed in the testimony of the Customer Service Panel and the Revenue
16 Requirements Panel.

17 Q. What does the line item labeled Merchant Function Charge represent in Exhibit
18 ____ (NYSEGDRP-6), Schedule A?

19 A. The line item labeled Merchant Function Charge represents the revenue charged
20 to sales customers to recover the costs associated with the Company's gas
21 merchant activities pursuant to the 2002 Gas Rate Joint Proposal (Case 01-G-
22 1668), Section X.2.

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1 Q. What does the line item labeled EEPS Surcharge represent in Exhibit ____
2 (NYSEGDRP-6), Schedule A?

3 A. The line item labeled EEPS Surcharge represents the revenue charged to all
4 customers to recover costs associated with the EEPS program. The charge is
5 structured so that all forecasted Rate Year EEPS costs are recovered within the
6 Rate Year.

7 Q. What does the line item labeled TSAS Surcharge represent in Exhibit ____
8 (NYSEGDRP-6), Schedule A?

9 A. The line item labeled TSAS Surcharge represents the revenue charged to all
10 customers, starting in July 2009, to recover the costs mandated by the
11 Commission's Order Establishing a Temporary Annual Assessment, issued June
12 19, 2009, in Case 09-M-0311.

13 Q. What does the line item labeled Transition Surcharge represent in Exhibit ____
14 (NYSEGDRP-6), Schedule A?

15 A. The line item labeled Transition Surcharge represents the delivery portion
16 (Deferred and Uncontrollable Costs) of the Transition Surcharge.

17 Q. What does the line item labeled R&D Surcharge represent in Exhibit ____
18 (NYSEGDRP-6), Schedule A?

19 A. The line item labeled R&D Surcharge represents the surcharge applied to all
20 deliveries to recover R&D expenditures of \$650,000 per year as provided in
21 NYSEG's Joint Proposal in Case 01-G-1668 (effective October 1, 2002).

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1 Q. What does the line item labeled Revenue Taxes represent in Exhibit ____
2 (NYSEGDRP-6), Schedule A?

3 A. The line item labeled Revenue Taxes represents a delivery revenue surcharge to
4 provide recovery of revenue taxes (in Taxes Other Than Income Taxes) paid by
5 the Company to New York State and various municipalities.

6 Q. Does the Rate Year revenue include similar revenue as the Test Year?

7 A. Yes, with three exceptions. The EEPS Surcharge went into effect October 1,
8 2008 and, thus, is not included in the first three months of the Test Year revenue.

9 Q. What is the second exception?

10 A. The Test Year does not include the TSAS Surcharge, which started in July 2009.

11 Q. What is the third exception?

12 A. The Test Year includes the Merchant Function Charge revenue components that
13 provide recovery of gas supply write-off expenses, gas storage inventory carrying
14 costs, and administrative and procurement costs, whereas the Rate Year includes
15 only the administrative and procurement cost component.

16 Q. Please explain the increase in Billed Gas Delivery Revenues in Exhibit ____
17 (NYSEGDRP-6), Schedule A, page 7 of 7, between the Test Year and the Rate
18 Year.

19 A. The Billed Gas Delivery Revenue increase of \$3,647,000 between the Test Year
20 and the Rate Year is primarily attributed to the following:

21 1. A decrease of \$7,226,000 due to lower base delivery revenues resulting
22 from the forecasted decrease deliveries and customers for the Rate Year
23 compared with the Test Year.

DELIVERIES AND REVENUE PANEL

- 1 2. A decrease of \$11,991,000 due to a reduction in Merchant Function
2 Charge revenues to reflect only the administrative and procurement cost
3 recovery in the Rate Year.
- 4 3. An increase of \$2,291,000 due to the Company recapturing the higher
5 level of EEPS expenditures in the Rate Year compared with the Test Year.
- 6 4. An increase of \$13,048,000 due to the establishment of the TSAS
7 Surcharge starting in July 2009. As previously explained, this surcharge
8 went into effect after the Test Year.
- 9 5. An increase of \$6,144,000 due to the institution of the delivery component
10 of the Transition Surcharge. This component was not in effect for the
11 entire Test Year.
- 12 6. An increase of \$1,356,000 due to higher gross revenue taxes resulting
13 primarily from the establishment of the TSAS Surcharge and Transition
14 Surcharge delivery component.
- 15 Q. Does this conclude the Panel's direct testimony at this time?
- 16 A. Yes, it does.