

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
ELECTRIC AND NATURAL GAS SUPPLY PANEL**

**Jeffrey M. Converse
Brian K. Hawley**

September 17, 2009

ELECTRIC AND NATURAL GAS SUPPLY PANEL

1 Q. Please state the names of the members on this Electric and Natural Gas Supply
2 Panel (the "Panel").

3 A. We are Jeffrey M. Converse and Brian K. Hawley.

4 Q. Mr. Converse, please state your current position and business address.

5 A. My title is Manager – Electric Supply at New York State Electric & Gas
6 Corporation ("NYSEG" or the "Company") and Rochester Gas and Electric
7 Corporation ("RG&E"). My business address is NYSEG, 18 Link Drive,
8 Binghamton, New York 13902-5224.

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

10 A. I graduated from Clarkson College of Technology in 1980 with a Bachelor of
11 Science degree in Electrical Engineering. I joined NYSEG in 1980 and have held
12 several positions of increasing responsibility. Most recently, I was Lead Engineer
13 in Supply Planning from 1991 to 2001, at which time I transferred to Energy
14 Trading. I was promoted to my current position in 2003. As the Manager –
15 Electric Supply, I am responsible for managing NYSEG's and RG&E's wholesale
16 electric supply activities. These activities include the budgeting, contracting and
17 hedging of both NYSEG's and RG&E's wholesale electric supply portfolios.

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

21 A. I testified previously before the Commission in the early 1990s as part of the
22 Commission's long-run avoided cost proceedings. More recently, I sponsored
23 testimony in Cases 09-E-0082, 09-G-0083, 09-E-0084, and 09-G-0085.

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

2 A. I am Manager, Energy Supply for RG&E and NYSEG. My business address is
3 NYSEG, 18 Link Drive, Binghamton, New York 13902-5224.

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

5 A. I received my Bachelor's degree from Binghamton University in Economics in
6 1989. I began working on a contract basis for NYSEG in the Electric Marketing
7 Department in 1991. I became a full time employee in 1992, as a project analyst,
8 in which capacity I was given progressively increasing responsibilities that
9 included carrying out the provisions of NYSEG's 1995 electric and natural gas
10 settlement, developing company revenue requirements, performing other analyses
11 to support subsequent negotiated settlements and forecasting NYSEG's natural
12 gas costs for internal business planning and regulatory purposes. In 2000, I was
13 promoted to Manager, Load Forecasting & Reporting with responsibility for
14 forecasting electric load, electric peak, natural gas load and the commodity cost of
15 natural gas for NYSEG. In February 2001, I was promoted to Manager, Gas
16 Trading & Supply. My responsibilities under that position included natural gas
17 purchasing in the Canadian, Gulf and Market areas, capacity releases and off-
18 system sales, negotiating the terms of long-term and short-term supply contracts,
19 and supply planning and operations. As part of those responsibilities, I was
20 tasked with the negotiation and implementation of transactions designed to
21 mitigate customer commodity risk. I assumed my present position in May 2003.
22 My responsibilities have been expanded to include all of the above-stated supply
23 functions for both NYSEG and RG&E. In 2008, my responsibilities were

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1 expanded again to include oversight of NYSEG and RG&E's retail access
2 programs.

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

5 A. Yes. I submitted testimony before the Commission in Cases 03-G-0766, 01-G-
6 1668, 00-G-0670, 02-G-0220, and 05-G-1268. I also sponsored testimony in
7 Cases 09-E-0082, 09-G-0083, 09-E-0084, and 09-G-0085. I testified before the
8 Federal Energy Regulatory Commission ("FERC") in March 1997 with respect to
9 NYSEG's Open Access Transmission Rate Increase Filing in FERC Docket No.
10 ER-2353-000.

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

12 A. The Panel will summarize NYSEG's electric commodity supply strategies, plans
13 and policies and how they mitigate market risk. The Panel will also summarize
14 NYSEG's natural gas procurement strategies, plans and policies. Next, the Panel
15 will discuss how NYSEG protects its interests – and those of its customers – by
16 intervening in proceedings before the FERC. The Panel will then discuss the Gas
17 Cost Incentive Mechanism ("GCIM"). The Panel will also present NYSEG's
18 natural gas expense forecast. The Panel will then address the regulatory
19 requirement in the Gas Capacity Planning and Reliability Proceeding (Case 07-G-
20 0299) for a plan for local production. This will be followed by a discussion of the
21 Company's proposal to reduce the number of Gas Supply Areas ("GSAs") from
22 three to one. Finally, the Panel will propose changes to NYSEG's retail access
23 program, including upgrades to the SmarTRAC software.

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1 Q. Is this Panel sponsoring any exhibits?

2 A. Yes. The panel is sponsoring six exhibits. Exhibit __ (NYSEGENGSP-1)
3 identifies NYSEG generators and NYSEG power purchase agreements. Exhibit
4 __ (NYSEGENGSP-2) is a schedule listing natural gas capacity contract holdings
5 for the years 2008-2013, based on the expiration dates of the Company's existing
6 pipeline and storage contracts. Exhibit __ (NYSEGENGSP-3) provides a city
7 gate annual expense forecast for the rate year. Exhibit __ (NYSEGENGSP-4)
8 provides NYSEG's natural gas market price forecast. Exhibit __
9 (NYSEGENGSP-5) sets forth NYSEG's local production plan. Exhibit __
10 (NYSEGENGSP-6) provides information relative to the SmarTRAC system.
11 Exhibit __ (NYSEGENGSP-7) provides an index of the Panel's workpapers. A
12 copy of the workpapers was provided to Department of Public Service Staff
13 ("Staff").

14 **NYSEG's ELECTRIC SUPPLY PROCUREMENT**
15 **STRATEGIES, PLANS AND POLICIES**

16 Q. What sources of electric supply does NYSEG currently have to serve its retail
17 customers?

18 A. NYSEG's current sources of electric supply are: 1) NYSEG owned generation;
19 2) contractual purchases; and 3) New York Independent System Operator
20 ("NYISO") purchases.

21 Q. Please describe NYSEG's company owned generation.

22 A. A listing of NYSEG's company owned generation is set forth in Exhibit __
23 (NYSEGENGSP-1). The majority of NYSEG's owned generation is run-of-river

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1 hydropower. NYSEG currently leases one small natural gas-fired generating unit.
2 The operation of NYSEG's natural gas generator is determined by the NYISO
3 based upon NYSEG's dispatch bids for the unit, which is developed using current
4 market prices for natural gas. The dispatch is determined by the NYISO's market
5 clearing price at the generator bus. Accordingly, the natural gas generator is
6 generally run as a peaking unit.

7 Q. Please describe NYSEG's contractual purchases of electric supply.

8 A. A listing of NYSEG's contractual purchases of electricity supply is included in
9 Exhibit __ (NYSEGENGSP-1). As shown on Exhibit __ (NYSEGENGSP-1), the
10 majority of NYSEG's contractual purchases are fixed price physical purchases for
11 energy and capacity from the New York Power Authority ("NYPA"),
12 Constellation Nuclear, LLC ("Nine Mile 2") and various Non-Utility Generators
13 ("NUGs").

14 Q. Does NYSEG purchase electric supply from the NYISO?

15 A. Yes. NYSEG meets its remaining physical load requirements, after accounting
16 for the load supplied by bilateral physical purchases, by making physical
17 purchases from the NYISO.

18 Q. What happens if NYSEG's existing generation and contractual purchase volumes
19 exceed NYSEG's actual load requirements?

20 A. In that situation, NYSEG sells into the day ahead or spot market.

21 Q. Please explain how NYSEG utilizes its three electric supply options.

22 A. Each of the three supply options are utilized differently. NYSEG bids its
23 generators into the NYISO at their applicable dispatch price. The revenue

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1 received for the generator from the NYISO minus incurred costs is allocated to
2 NYSEG delivery customers through the non-bypassable wires charge ("NBC").
3 Virtually all of NYSEG's contractual supply is "must take." The value of the
4 capacity and energy supplied by NYSEG contractual purchases net of contract
5 costs is allocated to NYSEG delivery customers through the NBC. Finally,
6 NYSEG uses NYISO purchases or sales to balance the remainder of its resources
7 and load.

8 Q. How does NYSEG mitigate market price volatility for its customers?

9 A. NYSEG's customers are allocated a load ratio share of NYSEG's owned
10 generation and contractual purchases. Approximately 33% of NYSEG's
11 residential delivery load and 14% of non-residential delivery load is hedged by
12 these resources. The difference between the residential and non-residential
13 percentages is NYSEG's NYPA hydro allocation, which is solely for the benefit
14 of residential customers. These fixed price hedges mitigate market price
15 volatility.

16 Q. In what way does NYSEG's own generation hedge customer market risk?

17 A. All customers receive a load ratio share of the revenues created from the sale of
18 energy and capacity into the NYISO.

19 Q. How does the loss of company-owned generation or expiration of contracts
20 impact NYSEG's hedges?

21 A. As contracts expire or generation is shut down or sold, the hedge percentages will
22 decline, all else remaining equal.

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1 Q. Will NYSEG's contractual purchases continue through 2014?

2 A. Yes, although certain major contracts will expire prior to that date. In particular,
3 NYSEG's contractual purchases of NYPA hydropower are scheduled to terminate
4 at the end of 2009, although it may be extended through 2010. Similarly, the
5 Nine Mile 2 power purchase agreement is scheduled to end in 2011.

6 Q. Does NYSEG still purchase energy from PURPA qualifying facilities?

7 A. Yes, although NYSEG intends to file with FERC for an exemption pursuant to
8 Section 210(m) of the Public Utility Regulatory Policies Act of 1978 ("PURPA"),
9 as added by Section 1253(a) of the Energy Policy Act of 2005 ("EPAAct 2005"),
10 16 U.S.C. § 824a-3(m) (2005),¹ and new Section 292.310 of FERC's regulations,
11 18 C.F.R. § 292.310, which provides an exemption for utilities in the NYISO
12 market to purchase from qualifying facilities down to 20 MW upon approval of
13 the request for exemption. NYSEG will ask that the exemption include qualifying
14 facilities down to 1 MW.

15 Q. Why is NYSEG seeking this exemption?

16 A. For two reasons: 1) to be consistent with the Commission's desire to deregulate
17 generation; and 2) because the structure of the NYISO markets facilitates the
18 bidding and scheduling of generators directly into competitive commodity
19 markets.

¹ Section 1253 of EPAAct 2005 was signed into law on August 8, 2005.

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1 Q. What is the significance of the 1 MW threshold?

2 A. This is the threshold level established by the NYISO for generators to bid and
3 schedule into the commodity markets.

4 Q. Does NYSEG do any other hedging?

5 A. Pursuant to the Commission's February 26, 2008 Order Establishing Electric
6 Supply Portfolio Standard, Goals, and Reporting Requirements in Case 06-M-
7 1017 ("Hedging Order"), NYSEG takes additional hedges for residential and
8 small commercial/industrial variable rate customers (i.e., mass market or Default
9 Supply Option) to achieve hedge levels of approximately 60% and 40%,
10 respectively.

11 Q. What is the impact of the potential loss of the NYPA hydropower?

12 A. The loss of NYPA hydropower would reduce the hedge percentage level for
13 residential customers by approximately 20%.

14 Q. How would the loss of the NYPA hydropower impact the small
15 commercial/industrial customers?

16 A. The loss of NYPA hydropower would not impact small commercial/industrial
17 customers.

18 Q. Should NYSEG's hedge drop below 60% for residential customers, for any
19 reason, what actions will NYSEG undertake?

20 A. Consistent with the Hedging Order, as the hedge percentage drops below 60% for
21 residential, Company-supplied customers, NYSEG will take on additional
22 physical or financial electric supply hedges to maintain the approximately 60%
23 hedge level.

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1 Q. How does this hedge small commercial/industrial variable rate customers?

2 A. The additional physical or financial hedges that NYSEG takes to achieve an
3 approximately 60% hedge level for residential, Company-supplied customers
4 would be allocated equally by load share between residential and small
5 commercial/industrial customers. The only difference between residential and
6 small commercial/industrial customers' hedge level would be the residential
7 customers' allocated share of NYPA hydropower, which is provided solely for the
8 benefit of residential customers.

9 Q. Why does NYSEG intend to hedge 60% of load for these residential customers
10 instead of some other percentage?

11 A. The 60% level was supported by the Commission in Case 06-M-1017. It provides
12 reasonable market price exposure for customers and is consistent with historical
13 hedge levels for NYSEG. The impact of hedging is reported in quarterly
14 coefficient of variation filings submitted to Staff, as required by the Hedging
15 Order.

16 Q. Please explain the importance of duration and timing for electricity supply
17 hedges.

18 A. No entity, including NYSEG, can fully predict electricity supply market prices. A
19 structured program that layers in hedges over time smoothes out the impact of
20 price volatility. Hedging too far into the future would expose NYSEG's
21 customers to the risk of customer migration. Specifically, if a large portion of
22 customers switch to an energy service company ("ESCO"), the remaining

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1 customers would bear the burden of all these hedges in the event of unexpected
2 migration.

3 Q. Can you provide more detail on the hedging program for residential and small
4 commercial/industrial customers?

5 A. Yes. NYSEG hedges twelve months into the future. NYSEG hedges
6 approximately 1/12 of its open position each month (subject to standard market
7 products) such that, coupled with NYSEG's remaining resources, the desired
8 hedge percentages are achieved prior to the start of the month for which the
9 hedges are applicable.

10 Q. What do you mean by the phrase "standard market products"?

11 A. Financial energy hedges generally trade in 50 MW blocks. In addition, certain
12 months trade together, winter (January and February), spring (March and April),
13 summer (July and August) and fourth quarter (October – December). May, June
14 and September trade individually. Rather than pay a premium for a non-standard
15 product, NYSEG uses standard trading blocks to hedge variable price residential
16 customers.

17 **NYSEG'S NATURAL GAS PROCUREMENT**
18 **STRATEGIES, PLANS AND POLICIES**

19 Q. What rate case regulatory requirements apply to natural gas purchasing practices?

20 A. As part of its rate case, NYSEG is required under Section 61.3 (d)(6) of the
21 Commission's Codes, Rules and Regulations to establish that its natural gas
22 procurement policies and practices are prudent, ensuring natural gas purchases
23 from the best-cost, reliable sources.

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1 Q. What are the Company's goals and objectives in the procurement of natural gas?

2 A. NYSEG procures natural gas to promote the best interests of its customers in
3 obtaining the maximum projected value for dollars spent, consistent with
4 maintaining supply capability, system reliability and mitigation of customer risk.

5 Q. Please describe the plans and processes used to achieve these objectives in natural
6 gas procurement.

7 A. NYSEG's natural gas procurement program is a comprehensive process involving
8 many different components of analysis, including analyses with respect to
9 customer demand, price volatility, contract strategy, day-to-day operations and
10 billing activities. NYSEG develops detailed short-term and long-term supply
11 plans based on an assessment of forecast requirements and customer demand that
12 reflect historical and projected future demand, as well as changes in customer
13 migration to retail marketers. The Company ensures that it has sufficient supply
14 to meet design day and winter capability requirements. These plans enable us to
15 analyze and determine the need for transportation and storage assets to meet
16 system reliability requirements, including certain assets to support retail access
17 load migration (i.e., large-customer load balancing and small-customer reliability
18 and balancing requirements).

19 Q. How do you address market volatility?

20 A. NYSEG engages in hedging transactions to reduce the exposure of customers to
21 changes in natural gas prices.

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1 Q. Please describe the contractual process NYSEG uses in supply procurement.

2 A. Our purchasing process encompasses significant contracting activities to evaluate
3 and select natural gas suppliers and pipeline services, as well as to negotiate,
4 execute and administer contractual agreements. Such agreements cover natural
5 gas supply, transportation and storage capacity, and portfolio optimization
6 activities.

7 Q. How do you manage the process to maximize its effectiveness?

8 A. While developing and maintaining long-term plans, we continually monitor and
9 manage our short-term, day-to-day operations throughout the year to take
10 advantage of opportunities to maintain reliability and efficiency. We prepare
11 daily short-term forecasts and schedules; adjust our nominations and delivery
12 schedules on the interstate natural gas pipelines that serve our city gates,
13 incorporating retail access program requirements; and work to identify portfolio
14 optimization opportunities (e.g., capacity releases, third-party sales and volatility
15 mitigation transactions).

16 Q. Are there any other components of analysis in NYSEG's natural gas procurement
17 process?

18 A. Yes. After transactions are implemented, energy billing activities verify supplier
19 and pipeline invoices for payment and generate reports in accordance with all
20 applicable requirements.

21 Q. Is that a complete list of components of NYSEG's comprehensive gas
22 procurement program?

23 A. Yes.

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1 Q. Please describe NYSEG's existing natural gas supply and capacity contracts.

2 A. NYSEG's natural gas supply and capacity contracts are designed to serve the
3 Company's city gates across its noncontiguous service territory. These city gates
4 are served by Dominion Transmission Inc.'s pipeline system, Empire State
5 Pipeline, Iroquois Gas Transmission, Tennessee Gas Pipeline, Columbia Gas
6 Transmission, North Country Pipeline, Algonquin Gas Transmission, as well as
7 other interconnects behind other Local Distribution Companies ("LDCs").
8 Additionally, NYSEG holds capacity on many other pipelines upstream of these
9 interconnected systems.

10 Q. Please explain how NYSEG sources its supply for retail customers.

11 A. NYSEG's portfolio of natural gas supply and capacity contracts is designed to
12 serve the city gates that we just referenced. Given NYSEG's portfolio, we are
13 able to acquire natural gas from various sources that originate in the Gulf of
14 Mexico, Appalachia, mid-continent and Canada. Based on system requirements
15 and availability of supply, we purchase on a best-cost basis in order to optimize
16 the cost effectiveness of purchases on behalf of our retail customers. We not only
17 have geographic supply diversity in our purchasing program, but we maintain
18 price diversity by virtue of the different types of pricing mechanisms that apply to
19 our supply portfolio (e.g., first-of-month index, daily index, fixed price, New
20 York Mercantile Exchange ("NYMEX") futures, storage weighted average cost of
21 gas).

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1 Q. Please describe NYSEG's portfolio of capacity and storage assets.

2 A. Exhibit __ (NYSEGENGSP- 2), provides a listing of capacity and storage assets
3 and their expiration dates.

4 Q. What are the key factors that influence NYSEG's natural gas purchasing practices
5 today?

6 A. There are three key factors: (1) the magnitude and variability of NYSEG's load;
7 (2) optimization of underground storage use; and (3) mitigation of wholesale
8 natural gas price volatility.

9 Q. In what way does the magnitude and variability of NYSEG's load affect NYSEG's
10 natural gas purchasing practices?

11 A. NYSEG's load consists primarily of high-priority, low-load factor end users. We
12 balance these considerations in a manner that ensures supply reliability while
13 minimizing natural gas costs to our customers.

14 Q. How is underground storage used as a component of NYSEG's supply portfolio?

15 A. Natural gas storage is used by NYSEG for three primary purposes: (1) to satisfy
16 peak winter demand; (2) to guarantee available supply for short-term peaks
17 ranging from a few hours to a few days; and (3) to manage daily fluctuations
18 resulting from weather and forecasting variations. To ensure that adequate
19 supplies are available to meet seasonal requirements through the heating season,
20 NYSEG injects substantial amounts of natural gas into storage reservoirs from
21 April through October. During these non-heating season months, NYSEG's firm
22 natural gas demand decreases as temperatures rise. Thus, storage enables greater
23 system efficiency by allowing level production and transmission flow throughout

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1 the year. Because of this leveling effect, storage decreases the amount of new
2 transmission capacity needed to meet the demands of the marketplace. During the
3 heating season, natural gas held in storage supplements supplies and pipeline
4 capacity from the producing regions to meet customers' requirements. Because at
5 any point in time storage natural gas is purchased during the summer months,
6 typically at prices that are lower than flowing supply purchased during the winter,
7 storage can also provide a seasonal price advantage for our customers.

8 Q. How does NYSEG mitigate retail price volatility?

9 A. The major element of NYSEG's program to mitigate price volatility for its
10 customers involves hedging a portion of NYSEG's projected natural gas
11 requirements. Such requirements are hedged through the natural price hedge that
12 is afforded by filling storage during the summer months and withdrawing in the
13 winter season. In addition, we enter into forward financial transactions in order to
14 further manage the price of natural gas for our customers. These strategies and
15 associated transactions are developed and reviewed on an ongoing basis.

16 Q. Please discuss NYSEG's intervention and participation in pipeline rate cases or
17 other proceedings before the regulatory agencies that regulate the natural gas
18 industry.

19 A. NYSEG intervenes in natural gas pipeline rate cases, certificate and policy
20 proceedings and Purchased Gas Adjustment filings both at the federal and state
21 levels in order to make sure that the best interests of customers and NYSEG are
22 represented in these important regulatory matters. In addition, NYSEG

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1 participates in similar proceedings before the National Energy Board, which is
2 roughly the Canadian equivalent of the FERC.

GCIM

3
4 Q. Please describe the GCIM in NYSEG's existing rate Joint Proposal as further
5 clarified by the Commission in Case 04-G-1278.

6 A. There were two GCIMs established in the existing rate Joint Proposal: GCIM 1
7 and GCIM 2. As a result of the Iberdrola/Energy East merger proceeding (Case
8 07-M-0906), GCIM 2 was terminated effective December 31, 2008.

9 Q. What is GCIM 1?

10 A. GCIM 1 relates to portfolio optimization activities conducted by NYSEG on a
11 stand-alone basis. Savings under GCIM 1 are to be shared as follows:

12 • One hundred percent (100%) of the savings attributable to migration
13 capacity release is for the benefit of customers.

14 • 80%/20% sharing between customers and shareholders of: (1) NYSEG
15 non-migration capacity release; (2) NYSEG off-system sales net of gas costs and
16 related optimization transactions; and (3) savings from local production.

17 Q. Do you propose to extend GCIM 1?

18 A. Yes, the optimization activities under GCIM 1 provided benefits to ratepayers and
19 proper incentives to NYSEG.

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NATURAL GAS EXPENSE FORECAST

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Q. Has NYSEG prepared a natural gas expense forecast that covers quantities as well as costs?

A. Yes. Exhibit __ (NYSEGENGSP-3) provides a city gate annual expense forecast for 2010 and 2011. The forecast includes projected load requirements together with natural gas commodity costs and total pipeline costs (i.e., transportation and storage costs).

Q. Please explain the natural gas market price forecast that was used to prepare the expense forecast.

A. The natural gas market price forecast is provided in Exhibit __ (NYSEGENGSP-4). It is based on NYMEX futures prices from August 25, 2009. Production area prices and market area prices are set forth in that Exhibit. As a result of changing market conditions and high natural gas price volatility, the forecast is subject to change.

Q. Does the Company propose to continue the existing Gas Supply Charge ("GSC") to collect the cost of gas purchased for firm sales customers?

A. Yes.

LOCAL PRODUCTION PLAN

Q. Please discuss local production issues.

A. In its August 30, 2007 Order on Capacity Release Programs in Case 07-G-0299, the Commission ordered LDCs with local gas production connected directly to their distribution facilities to file, in their next major rate applications, a plan for

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1 use of this local gas production as upstream capacity and its continuing
2 availability as a replacement for capacity provided by the LDC.

3 Q. Does NYSEG currently have local production connected to its distribution
4 system?

5 A. Yes. Such supplies, however, are very limited.

6 Q. Does NYSEG have a process in place for ESCOs to purchase local production gas
7 to satisfy their customers' load requirements?

8 A. Yes, the process is detailed in the Local Production Plan set forth in Exhibit __
9 (NYSEGENGSP-5).

10 Q. Are the existing local production gas supplies an acceptable replacement for firm
11 upstream primary point capacity at this time?

12 A. No. Local production connected to the NYSEG distribution system is not
13 sufficiently reliable to be considered a replacement for upstream capacity.

14 Q. Does NYSEG have to maintain its firm upstream primary point capacity
15 regardless of local production?

16 A. Yes. NYSEG manages supply and capacity to meet design conditions, without
17 making adjustments for the level of production on the system, in recognition of
18 the fact that local production has not always been available when needed.

19 NYSEG also maintains firm supply contracts for the same design day
20 requirements in the event that local production is unavailable.

21 Q. Why is it necessary to maintain this capacity and supply at NYSEG's city gates?

22 A. Because the flow of local production is neither consistent, robust nor reliable.

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1 Q. Is it conceivable that local production within certain load pockets on the NYSEG
2 system could become more robust in the near future?

3 A. Yes. NYSEG expects that drilling in the Marcellus Shale formations in Northern
4 Pennsylvania currently underway may offer more robust and reliable supply.
5 Even with this developing supply, however, NYSEG must maintain a reliable
6 source of supply to ensure that firm customers are served in accordance with tariff
7 and statutory obligations. Traditionally, this need has been met by the diverse
8 access to supply on the interstate pipelines.

9 Q. Is NYSEG proposing a plan for use of this local gas production as a replacement
10 for upstream capacity?

11 A. Yes, NYSEG believes that on system storage, together with more robust on
12 system supply, could be a replacement for primary point capacity at the city gate.
13 A plan to implement this concept in the Elmira load pocket of NYSEG's system is
14 included in Exhibit __ (NYSEGENGSP- 5).

GAS SUPPLY AREAS

15
16 Q. Does NYSEG propose any changes to its Gas Supply Areas ("GSA")?

17 A. Yes, NYSEG currently has three GSAs, and is proposing to consolidate those
18 three into one.

19 Q. How does this consolidation benefit customers?

20 A. The consolidation of three GSAs into one GSA benefits customers by adding
21 diversity of supply price into the GSC. As discussed by the Revenue Allocation
22 and Rate Design Panel, the Company's would consolidate its three GSCs into one,
23 which would be applicable to all supply customers on the NYSEG system. As we

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1 testified earlier, NYSEG buys gas in many different markets/pooling areas. The
2 difference in basis between these areas is constantly shifting. Consolidating to
3 one GSA will reduce the impact of these pricing swings for all customers, thereby
4 mitigating price volatility, which is consistent with the Commission's 1998
5 Statement of Policy on Gas Purchasing Practices in Case 97-G-0600.

RETAIL ACCESS PROGRAMS

6
7 Q. Do you propose any changes to NYSEG's retail access program?

8 A. Yes.

9 Q. What modifications are being proposed at this time?

10 A. The Company proposes to change the due date for the customer request to change
11 gas supply from one provider to another.

12 Q. What is the current request date?

13 A. Currently, daily metered customers can submit a formal request to NYSEG to
14 change ESCOs five business days prior to the end of the month. The customer is
15 then switched the first calendar day of the next month.

16 Q. How do you propose to change the switching process?

17 A. The proposed due date for the formal request is by the fifteenth calendar day of
18 the month and the switch day will remain on the first calendar day of the next
19 month. This will unify the process for all migrating customers according to the
20 Uniform Business Practice rule in Section 5.D.7, "[t]he distribution utility shall
21 set the effective date, which shall be no sooner than 15 calendar days after receipt
22 of an enrollment request."

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1 Q. Why is this change necessary?

2 A. Daily metered customers who are classified as critical care customers are now
3 included in the mandatory capacity assignment program and the Company needs
4 more time to review and confirm the switches for accurate capacity assignments.

5 Q. Is the Panel proposing any other changes to its retail access program?

6 A. The Company proposes to add language to its tariff and the Gas Transmission
7 Operating Procedures Manual ("GTOP") making an ESCO responsible for paying
8 its pro-rata share of any upstream pipeline costs incurred by the Company as a
9 result of an imbalance in the ESCO's metered daily cashout calculations
10 exceeding either a positive or negative 10%. This proposed change will ensure
11 the fair distribution of overrun costs to the appropriate shippers.

12 Q. Does the Company propose any other changes to the retail access program?

13 A. Currently, the Company proposes to change the frequency of the reconciliation of
14 the estimated total usage ("ETU") calculations to actual meter reads for the non-
15 daily metered customers.

16 Q. How often does the Company currently prepare this calculation?

17 A. The Company does a semi-annual reconciliation. The Company proposes to
18 prepare this calculation monthly with the upgrade to the new SmarTRAC system.

19 Q. Why does the Company propose this change?

20 A. Migration of customers from sales to transportation has increased significantly in
21 recent years. A monthly reconciliation of meter reads to ETU calculation in a
22 timely manner will reduce the likelihood of large amounts being owed to the
23 Company or an ESCO.

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1 Q. Does the Company propose any other changes to its retail access program?

2 A. Yes, the Company proposes to make adjustments to the reliability surcharge
3 calculation. The cost support for the proposed change is discussed by the
4 Embedded Cost of Service Panel and the design of the updated reliability
5 surcharge rate is discussed by the Revenue Allocation and Rate Design Panel.

6 Q. What is the reason for these changes?

7 A. This adjustment is necessary to establish a reliability surcharge for the
8 consolidated GSA.

9 Q. Do you propose any changes to SmarTRAC?

10 A. Yes.

11 Q. What is SmarTRAC?

12 A. SmarTRAC is NYSEG's web-based Electronic Bulletin Board used to allow
13 ESCOs to nominate natural gas to the LDC retail access program. This web-site
14 also provides the ESCO with its customer and customer pool usage, load
15 forecasts, imbalances, cash-out amounts and other critical information. The
16 software is relied on to perform a series of complex reconciliations designed to
17 keep all market participants whole from a gas cost perspective.

18 Q. Why does NYSEG need to upgrade this system?

19 A. The software has become antiquated and needed calculations cannot be performed
20 in the current system. These calculations must be performed to protect all
21 customers on NYSEG's system. Moreover, the existing SmarTRAC technology is
22 no longer economically supportable from an information technology service
23 perspective. The system upgrade will allow more flexibility and provide net

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1 benefits over time. A technical justification for an upgrade, a list of functions
2 currently performed in SmarTRAC and a list of new functionalities are provided
3 in Exhibit __ (NYSEG-ENGSP- 6).

4 Q. Does this complete the Panel's direct testimony at this time?

5 A. Yes, it does.