

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- 0715
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- 0716
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service	Case 09-E- 0717
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service	Case 09-G- 0718

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**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

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David W. Segal
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**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

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

3 A. We are James A. Lahtinen, Mark O. Marini, David W. Segal, and Christine M.
4 Stratakos.

5 Q. Are you the same Panel members that sponsored the Direct Testimony of the
6 Revenue Decoupling Mechanism Panel on behalf of New York State Electric &
7 Gas Corporation ("NYSEG") and the Direct Testimony of the Revenue
8 Decoupling Mechanism Panel on behalf of Rochester Gas and Electric
9 Corporation ("RG&E") (together with NYSEG, the "Companies") in these
10 proceedings?

11 A. Yes.

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

13 A. The overall purpose of our rebuttal testimony is to respond to certain aspects of
14 the New York State Department of Public Service Staff's ("Staff") Electric Rates
15 Panel, Gas Rates Panel and Policy Panel testimony regarding the Companies'
16 proposed revenue decoupling mechanisms ("RDMs"). Specifically we will:

17 a. Discuss the areas of agreement between the Staff Electric Rates Panel and
18 the Companies with respect to the electric RDM;

19 b. Rebut several aspects of the Staff Gas Rates Panel's testimony;

20 c. Respond to Staff's position regarding interim adjustments to RDM; and

21 d. Rebut the Staff Policy Panel's comments regarding the Companies'
22 proposed indexing methodology.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Q. Did any other party file testimony on the Companies' proposed RDMs?

2 A. Yes. Nucor Steel Auburn, Inc. ("Nucor") filed testimony on NYSEG's proposed
3 RDMs. Nucor agreed with the exclusion of NYSEG's SC7-4, SC13 and SC14
4 rate classes from the RDM.

5 Q. What conclusions have you reached regarding Staff's RDM testimony?

6 A. We have reached three conclusions. First, it appears that Staff and the Companies
7 are close to agreement on the structure and operation of an electric RDM.
8 Second, adoption of Staff's gas RDM proposals would likely cause the Companies
9 to seek more frequent rate relief, raise the administrative complexity of the RDM,
10 and exclude customers that do or will benefit from the Companies' energy
11 efficiency programs. Third, we find that the Staff Policy Panel's position on the
12 Companies' RDM indexing proposal is arbitrary and unsupported by evidence.

13 Q. Did the Panel revise its exhibits as part of the Companies' December 4, 2009
14 update?

15 A. Yes, we did. Specifically, the RDM targets were revised to reflect the Deliveries
16 and Revenue Panel and Revenue Allocation and Rate Design Panel updates. See
17 Exhibit __ (NYSEGRDM-3) 12/4/09 Update and Exhibit __ (RGERDM-3)
18 12/4/09 Update.

19 Q. Are you sponsoring any exhibits in support of your rebuttal testimony?

20 A. Yes. Exhibit __ (RDM-7) contains the interrogatory responses referenced in our
21 rebuttal testimony.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

ELECTRIC RDM

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Q. Does the Staff Electric Rates Panel agree with any aspect of the Companies' proposed electric RDM?

A. Yes. The Staff Electric Rates Panel agrees with the Companies on the delivery service revenues subject to the RDM. All base delivery revenues would be covered including customer, demand per kilowatt ("KW"), reactive per rkvah and delivery per kilowatt-hour ("kWH") as well as the non-New York Power Authority ("NYPA") revenues of customers who have all or a portion of their load supplied by NYPA. The Staff Electric Rates Panel also agrees with the Companies that area lighting and street lighting, stand-by, flexible contracts and those service classes that have few customers should be excluded from the RDM. Staff did not comment on the Companies' proposed annual RDM surcharge/surcredit process. Each class specific credit or surcharge would be collected/refunded over a 12-month period based on a per kW rate for classes that do not have a kWH charge and per kWH for all other classes. Lastly, Staff supported, in part, the Companies' proposal for an interim surcharge/surcredit employing a trigger of 1.25% of delivery service revenues. Staff supports a trigger to mitigate unexpectedly large RDM balances and agrees with the threshold for all four operating companies.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Q. Did the Staff Electric Rates Panel raise any concerns regarding the Companies'
2 proposed RDM?

3 A. Yes. The Staff Electric Rates Panel raised five concerns regarding the
4 Companies' proposed RDM. First, Staff states that NYSEG's seasonal customers
5 should be excluded from the RDM if the New York State Public Service
6 Commission ("Commission") does not adopt Staff's seasonal rate design proposal.
7 The Companies agree and propose to exclude seasonal customers from the RDM.
8 Second, Staff recommends a proration adjustment to the RDM. The Companies
9 acknowledge an adjustment is required and will separate initial billed usage into
10 pre- and post- rate change and set targets accordingly. Third, Staff asserts, and
11 the Companies agree, that flexible rate and NYPA customer migration should be
12 treated symmetrically. See Exhibit __ (RDM-7) (containing Companies' response
13 to DPS-577 (NYRC-0893)). Specifically, the Companies propose that RDM
14 targets be adjusted, at the beginning of the next rate year, to account for migration
15 to and from standby or flexible rate classes and/or NYPA customers to a service
16 class covered by the RDM. Fourth, Staff states that RDM rates should be
17 identified on a statement filed with the Commission. The Companies' proposed
18 tariffs include language regarding the filing of RDM statements. The Companies
19 confirm that statements will be filed with the Commission showing RDM
20 surcharges or credits.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Q. What was Staff's fifth recommendation?

2 A. The Staff Electric Rates Panel's fifth recommendation was to limit an interim
3 RDM surcharge/surcredit to no more than once per year.

4 Q. Do you agree that an interim RDM surcharge/surcredit should be limited to one
5 per year?

6 A. No. We will revisit that topic momentarily.

7 **GAS RDM**

8 Q. Does the Staff Gas Rates Panel agree with the target structure of the Companies'
9 proposed gas RDM?

10 A. No. The Staff Gas Rates Panel advocates for a revenue-per-customer RDM while
11 the Companies proposed a total revenue-per-class RDM, consistent with its
12 electric RDM proposal.

13 Q. Why does the Staff Gas Rates Panel recommend a revenue-per-customer RDM?

14 A. On page 19 of its testimony, the Staff Gas Rates Panel states that "gas utilities
15 should be encouraged to continue to promote efficient natural gas usage as well as
16 maintain existing customer load." The Staff Gas Rates Panel asserts that a total
17 revenue-per-class RDM removes the incentive for the Companies' gas business to
18 promote customer growth. Staff claims that the need for the incentive justifies the
19 use of different RDM models for the Companies' gas and electric businesses.

20 Q. Do you agree with the Staff Gas Rates Panel's reasoning?

21 A. No. NYSEG's and RG&E's gas businesses have always had an incentive to
22 increase customers. Yet, historically, the growth in gas customers in both the

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Companies' service territories is minimal, with increases of just under 0.4% per
2 year between 2004 and 2008. In fact, industrial and commercial customer counts
3 have fallen over that time period at both Companies. The goal of an RDM is to
4 remove the disincentive a utility has to promote energy conservation and the
5 Companies' proposal fully satisfies such requirement. The Companies will
6 continue to have an incentive to add gas customers where it is economical to do
7 so. Economic expansion provides the Company the opportunity to profitably
8 invest in its system. Increased gas throughput over the long term will, all else
9 remaining equal, allow fixed costs to be spread over increased deliveries thereby
10 lowering average prices to ratepayers. Lower prices are beneficial to gas
11 customers and preferable for the Companies. Staff's concern about removing
12 incentives for the Companies to add gas customers is short-sighted and ignores
13 the long-term incentives that remain for the Companies to add new gas customers.

14 Q. Why have the Companies proposed a total revenue-per-class gas RDM?

15 A. The Companies have proposed a total revenue-per-class gas RDM to allow for a
16 consistent mechanism for both gas and electric businesses that will ease rate and
17 tariff administration. The Companies have proposed an RPI-X mechanism to
18 provide changes in revenue targets. This approach better ties revenue changes to
19 cost changes, while providing the Companies a long-term incentive to seek new
20 customers.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Q. If the Commission adopts the Staff Gas Rates Panel's proposed revenue-per-
2 customer RDM, do you have other concerns about the specifics of Staff's
3 methodology for setting and measuring actual and target revenues?

4 A. Yes. The Staff Gas Rates Panel appears to go to great lengths to focus on precise
5 measures of usage and incremental revenue that should be used to determine both
6 target and actual revenues. However, it is administratively more straightforward
7 and appropriate for the Companies to simply calculate average revenue per
8 customer by service class, and not by customer type.

9 Q. Does the Staff Gas Rates Panel's methodology for measuring target and actual
10 revenues create problems?

11 A. Yes. Staff proposes to develop target revenues per customer for commercial and
12 municipal customers using rates that do not apply to certain customers within
13 each group. At RG&E, for example, Staff proposes using the weighted average
14 SC1 block rates, multiplied by average commercial and/or municipal usage to
15 develop target and actual revenues per customer. However, many RG&E
16 commercial customers, with substantial usage, are located in the SC3 class.
17 These customers pay substantially different volumetric rates. Using the SC1 rate
18 structure for these customers has the potential to skew the measurement of the
19 RDM. A similar problem exists at NYSEG.

20 Q. Do you have a proposed solution?

21 A. Yes. If the Commission orders a revenue-per-customer model, the Companies
22 recommend adopting service class-specific RDM usage and revenue targets.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Q. Are there other issues with Staff's proposal?

2 A. Yes. The Companies bill customers based on their service class. Staff's proposal
3 would add another level of bill complexity (and billing system modifications)
4 because billing determinants would also have to be based on customer type
5 (Residential/Commercial/Industrial/Municipal). For instance, an RG&E SC1 or
6 NYSEG SC2 Commercial customer would be assessed a different RDM
7 surcharge/credit than a respective Municipal customer. By using the Over 50
8 therm block rate for NYSEG and the 101-500 therm block rate for RG&E, Staff's
9 proposal would not appropriately price out the impact of residential conservation
10 impacts (space-heating/water-heating). There are five months at NYSEG and
11 seven months at RG&E where the average monthly residential usage falls below
12 the thresholds of the aforementioned blocks.

13 Q. If the Commission adopts a per-customer RDM, how do the Companies propose
14 the program be implemented?

15 A. The Companies would prefer a revenue-per-customer RDM, with revenue
16 including all block rates and volumes. The Companies would also propose to
17 measure customer usage within service classes, as opposed to by customer type.
18 This would keep administration simpler.

19 Q. Do you have any other concerns with the Staff Gas Rates Panel's RDM proposal?

20 A. Yes, one. The Staff Gas Rates Panel excludes industrial customers from the gas
21 RDM.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 Q. What rationale does the Staff Gas Rates Panel provide for doing so?

2 A. The Staff Gas Rates Panel points to the relative infancy of the energy efficiency
3 incentive programs targeting industrial customers compared with other customers.
4 Company-sponsored energy efficiency programs for commercial and industrial
5 ("C&I") gas customers were approved in October and November of 2009 and are
6 expected to be implemented this summer. Staff also cites the effects of the
7 economy, changes in industrial processes and/or customer closings as events that
8 would affect usage levels, but are not intended to be captured via an RDM.
9 Therefore, the Staff Gas Rates Panel recommends that industrial customers be
10 excluded from the RDM and does not project a possible future inclusion date for
11 these customers.

12 Q. Do you agree with Staff on this point?

13 A. No, we do not. First, the Commission approved the C&I prescriptive and C&I
14 custom rebate programs in October and November of 2009 and those programs
15 are expected to be available shortly for large commercial and industrial gas
16 customers. Secondly, the Companies' proposed gas RDM will not begin until
17 new rates are set in this proceeding and those targets will remain in place during
18 the entire rate year. That is certainly adequate time for the energy efficiency
19 incentive programs to become successfully implemented and utilized.

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

RDM TRUE-UPS

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Q. Do the Staff Electric Rates Panel and Gas Rates Panel raise any concerns with multiple interim RDM surcharges?

A. Yes. Both Staff Panels assert that an open ended number of changes to interim RDM rates will result in delivery bill volatility and customer confusion.

Q. Do you agree with Staff?

A. While we acknowledge that rate volatility could occur, the volatility of customers' bills in dollar terms would, by definition, be lowered with more frequent true-ups.

Q. What do you mean?

A. The goal of instituting an RDM is to collect a fixed amount of revenue per class. The number of interim true-ups will not affect the ultimate outcome – a target amount of revenue per class will be collected. If a trigger is met within the rate year, it is because target and actual revenues have drifted apart quickly and unexpectedly. Correcting this gap as it happens will enable customer bills to remain reasonably consistent and will not lead to substantial deferral balances. Given the Companies' financial condition, it is vital to keep deferral balances to a minimum. Under the Companies' proposal, any triggered surcharge or credit would be recovered over the remaining term of the rate year or four months, whichever is longer. This allows the Companies and customers timely resolution of any deferral and ensures adequate and appropriate cash flow. If the Commission approves only one trigger mechanism in a calendar year, the Companies propose that it be allowed to defer implementation until such time as

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 the Companies project that such an imbalance peaks and, also, that the Companies
2 be able to return or recover such interim amounts over the remainder of the rate
3 year or four months, whichever is greater.

INDEX METHODOLOGY

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5 Q. Does Staff address the Companies' proposed indexing methodology?

6 A. Yes, the Staff Policy Panel references the Companies' proposed indexing
7 methodology.

8 Q. Are the Staff Policy Panel's statements accurate?

9 A. No. The Policy Panel makes two errors regarding the Companies' proposed
10 indexing methodology.

11 Q. What is the first error?

12 A. Staff erroneously claims that the Companies' index methodology equates to price-
13 cap regulation. In reality, the indexing simply allows the Companies to adjust for
14 inflationary cost increases and avoid the time consuming and expensive process
15 of annual rate cases. Under the current regulatory structure, the Companies are
16 able to capture revenue growth between rate cases to help offset general cost
17 increases over time in Operations & Maintenance, capital costs and certain taxes.
18 Without indexing, an RDM would provide no relief from increasing cost
19 pressures. The Commission suggests, on page 8 of its April 7, 2007 Order
20 Requiring Proposals for Revenue Decoupling Mechanisms in Cases 03-E-0640
21 and 06-G-0746, that an inflation and productivity adjustment mechanism may be
22 incorporated in the RDM mechanism. The Companies have proposed a type of

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 inflation and productivity adjustment mechanism that is reasonable and supported
2 by decisions from other jurisdictions, as shown in our Direct Testimony,
3 Exhibit __ (RGERDM-5) and Exhibit __ (NYSEGRDM-5).

4 Q. What is the Staff Policy Panel's second error?

5 A. The Staff Policy Panel complains that there is an issue of asymmetric information.
6 Staff asserts that the Companies benefit from superior knowledge of the cost
7 structure and exogenous costs of the firm. This is certainly false. Staff has
8 resident auditors at the Companies, as well as other auditors that are constantly
9 auditing, in great detail, the Companies' information. Staff auditors also have
10 access to the Companies' annual reports that are filed with the Commission.
11 Additionally, Staff has received multi-year forecasts of revenue requirements in
12 response to DPS-23 (NYRC-0023), DPS-44 (NYRC-0044) and DPS-417 (NYRC-
13 0555). There exists no information asymmetry and complaints to that effect are
14 unfounded.

15 Q. Does the Policy Panel offer "possible adjustments to the proposed annual
16 adjustment mechanism which would partially address the concerns associated
17 with informational asymmetries?"

18 A. Yes. The Policy Panel, after voicing concerns about the annual adjustment
19 mechanism, proposes two possible adjustments to address its concerns. The first
20 is to use a percentage of the formula (arbitrarily set at 50%) to determine revenue
21 targets for subsequent rate years. This arbitrary statement is supported neither by
22 Staff testimony nor by industry precedent. The Companies' methodology has

**REBUTTAL TESTIMONY OF THE
REVENUE DECOUPLING MECHANISM PANEL**

1 been adopted many times throughout the industry (both gas and electric) and is
2 currently in use. See Exhibit __ (RGERDM-5) and Exhibit __ (NYSEGRDM-5).

3 Q. What is the second possible adjustment proposed by the Staff Policy Panel?

4 A. The Policy Panel suggests a ceiling on the index to address significant increases
5 in the GDP implicit price deflator. Such a ceiling is unnecessary at this time. If
6 such high inflation does materialize, the Companies will agree to meet with Staff
7 in advance of setting subsequent rate targets to see if a cap at 5% is warranted by
8 the Companies' forecasted cost experiences.

9 Q. Do you have further comments on the Staff Policy Panel's discussion of the
10 annual adjustment mechanism?

11 A. Yes. While we do not agree with the Policy Panel's proposal to arbitrarily reduce
12 our proposed index by 50%, we note and appreciate that Staff has agreed, in part,
13 with our proposed structure for an annual adjustment mechanism.

14 Q. Does this conclude the your rebuttal testimony at this time?

15 A. Yes, it does.

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