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 15-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 15-G- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service	Case 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service	Case 15-G- ____

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DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

Patricia A. Beaudoin
Lori A. Cole
Mark O. Marini
Brian J. McNierney
Susan B. Morien
Joseph M. Rizzo
Carolyn A. Sweeney
James D. Simpson

May 20, 2015

DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

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DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

I. INTRODUCTION

Q. Please state the names of the members on this Revenue Allocation, Rate Design, Economic Development, and Tariff Panel ("Panel").

A. The Panel members are Patricia A. Beaudoin, Lori A. Cole, Mark O. Marini, Brian J. McNierney, Susan B. Morien, Joseph M. Rizzo, Carolyn A. Sweeney, and James D. Simpson.

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

A. I am a Lead Analyst – Pricing and Analysis. My business address is 18 Link Drive, P.O. Box 5224, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My Curriculum Vitae ("CV") is set forth in Exhibit __ (RARDEDT-1).

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

A. I testified on several occasions before the Commission, including Cases 00-M-0504, 01-E-0359, 05-E-1222, and 09-E-0715 et al.

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

A. I am the Manager – Regulatory & Tariffs. My business address is 18 Link Drive, P.O. Box 5224, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-2).

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

A. I testified in Case 09-E-0715 et al.

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

A. I am the Director – Regulatory. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-3).

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

A. I testified on several occasions before the Commission, including in Cases 03-E-0765, 03-G-0766, 05-E-1222, 07-M-0906, and 09-E-0715 et al. In addition, I testified before the Maine Public Utilities Commission in Docket No. 2013-00168 for Central Maine Power Company.

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

A. I am a Lead Analyst – Pricing and Analysis. My business address is 18 Link Drive, P.O. Box 5224, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-4).

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

A. No.

DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

Q. Ms. Morien, please state your current position and work experience.

A. I am a Lead Analyst – Pricing and Analysis. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-5).

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

A. I testified on several occasions before the Commission, including Cases 09-E-0715 et al. and 03-E-0765.

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

A. I am the Manager – Economic Development and Community Relations. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-6).

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

A. No.

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

A. I am a Lead Analyst – Pricing and Analysis. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-7).

DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

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

A. I testified on several occasions before the Commission, including Cases 09-E-0715 et al. and 05-E-1222.

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

A. I am the Senior Vice President for Concentric Energy Advisors. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (RARDEDT-8).

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

A. No, I have not testified before the Commission. I have testified before state regulatory commissions in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Wisconsin mostly on matters related to rate cases, cost tracker mechanisms, decoupling mechanisms, rate consolidation, and demand forecasts. I have also testified before the Federal Energy Regulatory Commission.

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

A. The Panel discusses New York State Electric & Gas Corporation's ("NYSEG") and Rochester Gas and Electric Corporation's ("RG&E" and, together with NYSEG, the "Companies") distribution revenue allocation and rate design proposals, which are designed to recover the revenue increases for NYSEG

Electric, NYSEG Gas and RG&E Gas, and the revenue decrease for RG&E Electric, as supported by the Revenue Requirements Panel testimony. We also present service class specific rate design proposals. The Companies utilized the results of embedded and marginal cost of service studies, which are being filed separately, to develop its electric and gas class revenue allocation and rate design proposals, including area/outdoor lighting, street lighting, and standby rates. Pursuant to the terms of the Joint Proposal adopted in the Commission's September 21, 2010 Order Establishing Rate Plan in Case 09-E-0715 et al. ("2010 JP"), Appendix S, Paragraph K.1, the Panel presents the results of a study to redesign RG&E's gas delivery rate structures in a manner that is consistent with the gas delivery rate structures of NYSEG. A study was also conducted for NYSEG to ensure consistency between the Companies. The results of such studies are discussed in this testimony and copies of the studies are provided in Exhibit __ (RARDEDT-21). Next, we discuss proposed changes to the commodity portion of the Companies' voluntary residential time-of-use ("TOU") rates, and using updated electric load profiles for balancing and settlement purposes. The Panel provides updates to the Companies' competitive service rates based on the results of the embedded cost of service ("ECOS") studies. The Panel then describes the Companies' proposed enhancements and modifications to the non-rate Economic Development program offerings. The Panel also discusses updates to the Companies' Economic Development rate programs based on the results of the marginal cost of service ("MCOS") studies. In addition, the

Panel addresses the New York State Department of Public Service Staff's ("Staff") Lost and Unaccounted for ("LAUF") whitepaper. Next, the Panel discusses various proposed surcharge mechanisms and fees for potential services resulting from Case 14-M-0101, the Commission's Reforming the Energy Vision ("REV") proceeding. The Panel also discusses a proposal to test new rate designs in the Energy Smart Community Project ("ESC Project") as presented in the testimony of the Reforming the Energy Vision Panel. The Panel concludes by identifying the tariff modifications necessary to effectuate the Companies' proposals, and the tariff provisions to be made consistent between NYSEG and RG&E.

Q. Is the Panel sponsoring any exhibits?

A. Yes. The Panel is sponsoring the following exhibits:

1) Exhibits __ (RARDEDT-1 through RARDEDT-8) contain the Panel members CVs;
2) Exhibit __ (RARDEDT-9) includes Development of Electric Delivery Revenues (Present vs. Proposed) by Service Class:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
3) Exhibit __ (RARDEDT-10) shows Present and Proposed Electric Delivery Rates by Service Class:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;

4) Exhibit __ (RARDEDT-11) includes Electric Revenue Allocation:
   a. Schedule 1 – NYSEG
   b. Schedule 2 – RG&E;
5) Exhibit __ (RARDEDT-12) contains Electric Total Bill Comparisons:[1]
   a. Schedule 1 – NYSEG
   b. Schedule 2 – RG&E with Ginna Reliability Support Services Surcharge ("RSSS")
   c. Schedule 3 – RG&E without Ginna RSSS;
6) Exhibit __ (RARDEDT-13) sets forth Electric Delivery Bill Comparisons:[2]
   a. Schedule 1 – NYSEG
   b. Schedule 2 – RG&E with Ginna RSSS
   c. Schedule 3 – RG&E without Ginna RSSS
   d. Schedule 4 – NYSEG Standby
   e. Schedule 5 – RG&E Standby;
7) Exhibit __ (RARDEDT-14) contains a summary of Electric Economic Development Rates
   a. Schedule 1 – NYSEG
   b. Schedule 2 – RG&E;

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[1] Exhibit __ (RARDEDT-12), Schedule 2 reflects the estimated forecast Ginna RSSS rates for 2016 averaged for the year. Exhibit __ (RARDEDT-12), Schedule 3 is without the Ginna RSSS forecast rates.

[2] Exhibit __ (RARDEDT-13), Schedule 2 reflects the estimated forecast Ginna RSSS rates for 2016 averaged for the year. Exhibit __ (RARDEDT-13), Schedule 3 is without the Ginna RSSS forecast rates.

8) Exhibit __ (RARDEDT-15) provides Development of Gas Delivery Revenues (Present vs. Proposed) by Service Class:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
9) Exhibit __ (RARDEDT-16) sets forth Present and Proposed Gas Delivery Rates by Service Class:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
10) Exhibit __ (RARDEDT-17) provides Gas Revenue Allocation:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
11) Exhibit __ (RARDEDT-18) provides Gas Total Bill Comparisons:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
12) Exhibit __ (RARDEDT-19) provides Gas Delivery Bill Comparisons:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
13) Exhibit __ (RARDEDT-20) contains the RG&E Gas Rate Realignment Study;
14) Exhibit __ (RARDEDT-21) contains the NYSEG Gas Rate Realignment Study;

15) Exhibit __ (RARDEDT-22) provides an illustrative example of the Credit and Collection Component for Merchant Function Charge ("MFC") and Purchase of Receivables ("POR") Rate;
16) Exhibit __ (RARDEDT-23) is the summary of Unbundled rates for Competitive Services:
    a. Schedule 1 – NYSEG
    b. Schedule 2 – RG&E;
17) Exhibit __ (RARDEDT-24) includes NYSEG Economic Development Electric Existing Non-Rate Assistance Programs;
18) Exhibit __ (RARDEDT-25) contains RG&E Economic Development Electric Existing Non-Rate Assistance Programs;
19) Exhibit __ (RARDEDT-26) describes NYSEG and RG&E Economic Development Electric Non-Rate Assistance Proposed Programs;
20) Exhibit __ (RARDEDT-27) summarizes NYSEG Economic Development Electric Existing Targeted Financial Assistance;
21) Exhibit __ (RARDEDT-28) includes RG&E Economic Development Electric Existing Targeted Financial Assistance;
22) Exhibit __ (RARDEDT-29) describes NYSEG Economic Development Existing Gas Non-Rate Assistance Program;
23) Exhibit __ (RARDEDT-30) provides NYSEG and RG&E Economic Development Gas Non-Rate Assistance Proposed Program;

24) Exhibit __ (RARDEDT-31) includes a Matrix of Tariff Consistency Provisions; and
25) Exhibit __ (RARDEDT-32) provides an index of the Panel's workpapers. A copy of the workpapers will be provided to Staff.

II. BACKGROUND – REVENUE ALLOCATION AND RATE DESIGN

Q. Please provide an overview of the Companies' revenue allocation and rate design goals.

A. The Companies' primary revenue allocation and rate design goals are adequacy, fairness, and efficiency. Also important is the goal of rate stability. Adequacy is necessary to ensure that the rates are designed to recover the necessary revenue requirement set forth by the Revenue Requirements Panel. Fairness calls for allocating the total revenue requirement among the various customer classes in a way that most closely reflects the cost of providing services to each class. Efficiency means designing rates to recover costs from customers in a way that reflects, as closely as possible, the manner in which those costs are incurred by NYSEG and RG&E. Rate stability recognizes the need to employ gradualism when the implementation of rates based solely on the other goals would cause unexpected changes that significantly impact customer bills.

Q. How have the Companies addressed adequacy?

A. The Companies addressed adequacy by designing rates to recover the delivery revenue requirements proposed by the Revenue Requirements Panel from the various service classifications. Exhibit __ (RARDEDT-9) and Exhibit __

(RARDEDT-15) illustrate the proposed electric and gas delivery revenue for NYSEG or RG&E by service class for the Rate Year.

Q. How have the Companies attempted to meet the goal of fairness?

A. In attempting to achieve a fair revenue allocation and rate design process, the Companies conducted cost of service studies, both embedded and marginal, to guide electric and gas revenue allocation among the service classifications, and rate design within the service classifications. Cost of service studies have traditionally served as one of the basic tools of ratemaking. The results of the cost of service studies are presented by ECOS Study Witness, David A. Heintz, and MCOS Study Witness Amparo Nieto.

Q. Please discuss efficiency in the rate setting process.

A. Rates should be designed in the most economically efficient manner possible. That means rates should collect costs in a way that reflects, as closely as possible, the manner in which those costs are incurred. Economic theory is clear that, with efficiency being the goal, the pricing of services should be based on the marginal costs of providing those services. Marginal costs have played a significant role in the Companies past rate cases, and the Commission has long recognized the use of marginal costs in the rate setting process. <u>See</u>, <u>e.g.</u>, June 22, 2009 Order Adopting Recommended Decision with Modifications in Cases 08-E-0887 et al. (directing Central Hudson Gas and Electric Corporation ("Central Hudson") to file a marginal cost study in its next rate case); March 25, 2008 Order Establishing Rates for Electric Service in Case 07-E-0523 (noting that the

Commission "typically examines the results of a current, marginal cost study" when making rate design determinations); August 29, 2001 Order Concerning Tariff Amendments in Cases 94-E-0098 et al.; August 10, 1976 Opinion No. 76-15 – Opinion and Order Determining Relevance of Marginal Costs to Electric Rate Structures in Case 26806. Therefore, the Companies are utilizing the results of their respective MCOS studies to guide rate design as it has in prior rate proceedings, including its most recent case, Case 09-E-0715 et al. ("2009 Rate Case"). The Commission has also acknowledged that the cost of a utility's delivery system is substantially fixed in nature, meaning the cost of providing delivery service does not vary with the use of the delivery system. See, e.g., October 26, 2001 Opinion and Order Approving Guidelines for the Design of Standby Service Rates in Case 99-E-1470. The proposed rate design attempts to collect more of the delivery revenue requirement, to the extent practicable, through fixed charges, and less through variable (per kWh, per therm) charges.

Q. How have the Companies considered rate stability in their rate proposals?

A. In developing their rate design proposals, the Companies paid close attention to rate stability. The Companies' revenue allocation and rate design goals of adequacy, fairness, and efficiency sometimes conflict with this important consideration. For example, moving strictly to cost of service-based revenue allocation and rate design could cause dramatic changes in rates, resulting in significant bill impacts on customers. Consequently, the Companies considered customer bill impacts during the revenue allocation and rate design process, and have imposed constraints (boundaries) on the reallocation of revenues among service classes and the amount of increase applied to customer charges. The specifics of these constraints are described in the respective sections below.

III. ELECTRIC REVENUE ALLOCATION

Q. Please describe the electric delivery revenue requirement.

A. The revenue allocation and rate design process begins with the electric delivery revenue requirement presented by the Revenue Requirements Panel. The electric delivery revenue requirement consists of the base delivery revenue requirement (customer, demand, delivery kWh, and reactive revenues) and other delivery revenue adjustments. This Panel allocates the revenue increase to service classifications and designs rates for each class on the proposed gross base delivery revenue requirement for that class, adjusted to remove the components that will be collected through the MFC and the Bill Issuance and Payment Processing Charge ("BIPP"). It is important to note that for both electric companies, MFC delivery revenues are decreasing from current levels for electric service. BIPP revenues are increasing for NYSEG and decreasing for RG&E. Accordingly, rates for base delivery revenues must be increased or decreased so that the combination of base delivery, MFC, and BIPP revenues equates to the total delivery revenue requirement for NYSEG or RG&E. Other delivery revenue adjustments consist of surcharges that are charged to all or most customers and credits for economic development rate discount programs that are applied to qualifying customers and recovered through base delivery rates. The development of base delivery revenues by service classification and other delivery revenue adjustments are summarized in Exhibit __ (RARDEDT-9).

Q. How do NYSEG and RG&E build their respective rate discounts for Economic Development into electric delivery rates?

A. In order to collect the delivery revenue requirement set forth by the Revenue Requirements Panel, the Companies must design their delivery rates, including the increase, on the gross base delivery rate year revenue requirement. To do otherwise would leave a company with a revenue shortfall for the costs of the rate discounts for economic development. The base delivery revenues summarized in Exhibit __ (RARDEDT-9) shows revenues prior to economic development rate discounts.

Q. Did the Companies utilize the results of the electric ECOS study for their revenue allocation?

A. Yes. The Companies followed the terms of the 2010 JP, Appendix S, Paragraph A.2, in which the Companies agreed to base their electric revenue allocations on the relative rates of return that result from the ECOS study. The ECOS study is based on 2013 calendar year information, and was used as an initial guide in the allocation of delivery revenues among service classifications.

Q. How are the results of the ECOS study used as a guide in allocating delivery revenues?

A. As the initial step in the revenue allocation process, we looked at the results of the ECOS study presented by Company Witness Heintz. We then looked at the total company ("total system") rate of return and the rate of return for each service class as determined in the ECOS study. For each service class, the index rate of return is also calculated as part of the ECOS study. The index rate of return for each service class shows the variance of that service class's rate of return as compared to the total system rate of return.

Q. What are the rates of return shown in the ECOS study?

A. The total system rate of return for NYSEG is 7.28% as shown in Exhibit __ (RARDEDT-11), Schedule 1, and the system rate of return for RG&E is 8.65% as shown in Exhibit __ (RARDEDT-11), Schedule 2. The same exhibit also shows the rates of return for each service class as well as the indexed rate of return.

Q. Would the Panel discuss the indexed rate of return by service class that resulted from the ECOS study?

A. As stated in the testimony of Company Witness Heintz, the service class rate of return is derived by dividing the net operating income associated with each service class by the rate base allocated to each service class. The rate of return index for each service class is determined by taking the calculated service class rate of return and dividing it by the overall system average rate of return. The results of this calculation are shown in Exhibit __ (RARDEDT-11).

Q. Please describe how the Companies allocated the proposed revenue increase or decrease to service classes.

A. The revenue allocation process occurs in three steps. The process is the same for the three businesses where delivery rate increases are proposed (NYSEG Electric, NYSEG Gas and RG&E Gas), and for RG&E Electric which is proposing a delivery rate decrease. The Companies' goal is to move each service class rate of return toward the system rate of return through the allocation of the revenue requirement increase or decrease to each service class. Recognizing that some judgments and approximations are part of any cost analysis, the first step is the application of a 15% tolerance band to the results of the ECOS studies to account for potential variation in results. That is, if the index rate of return for any of the service classes falls outside of the +/-15% tolerance band, the contributions for those classes would change by a percentage other than an overall system average revenue increase or decrease. The service classes whose index rate of return is within the 15% band received the overall system average revenue increase or decrease. The service classes whose index rate of return is 1.15 or greater received less than an overall system average revenue increase because they are over-contributing to revenue requirement recovery. For RG&E Electric, any service class whose index rate of return is 1.15 or greater received a higher percentage decrease. The service classes whose index rate of return is 0.85 or less received more than an overall system average revenue increase because they are under-contributing to revenue requirement recovery. For RG&E Electric, any service class whose index rate of return is 0.85 or less received a lower percentage decrease. The results of this process are shown in Exhibit __ (RARDEDT-11).

Q. What is the second step in the revenue allocation process?

A. Recognizing that moving classes fully toward the system rate of return could have significant impacts on those service classes that fall outside the tolerance band, the Companies placed caps on the amount of the revenue increase or decrease for any such class. Service classes that were deemed to be over-contributing received 0.75 times the overall system average increase. For RG&E Electric, any over-contributing class received 1.25 the overall system average decrease. Service classes that were determined to be under-contributing received 1.25 times the overall system average revenue increase. For RG&E electric, any such class received 0.75 of the overall system average decrease.

Q. Please describe the last step in the revenue allocation process.

A. In order to achieve the overall delivery revenue requirement, a reallocation of any revenue deficiencies or surpluses that resulted from the application of the tolerance band was required. The revenue deficiency was allocated to all service classes, except those that were over-contributing. For RG&E Electric, the process resulted in all service classes receiving some level of revenue decrease.

IV. ELECTRIC SERVICE CLASS RATE DESIGN

Q. Once revenues are allocated to service classes, please describe the general principles you applied in designing rates, including how the Companies considered bill impacts in designing the service class delivery rates.

A. In designing rates to recover the service class revenue requirement, we compared the current rates to the efficient prices established by the MCOS study supported by Witness Nieto. We compared currently-effective customer charges to the marginal cost-based efficient prices, which are based on the fixed customer costs and facilities costs (referred to as "customer charges" in this section). To the extent that the efficient price exceeded the current charge, we increased the customer charge. However, in consideration of bill impacts, we imposed a general constraint so that no customer charge within a class would be increased by more than 25%. The remaining delivery revenue requirement was collected through the demand and delivery kWh rates. For service classes with both demand and delivery kWh rates, priority was given to collect the remaining delivery revenue requirement through demand rates first, and then through delivery kWh rates. Where possible, attempts were made to reduce or eliminate delivery kWh rates.

Q. Is the proposed increase in the customer charges for electric customers consistent with Commission Orders in previous rate cases?

A. Yes. As stated above, marginal costs have played a significant role in the Companies past rate cases. In its November 22, 2002 Order Directing Rate Design and Revenue Allocation in Cases 01-E-0359 et al. (the "November 22, 2002 Order") at pages 3-5, the Commission recognized the appropriate concept of using the cost of service studies to increase customer charges to meet the general principle that fixed costs should be recovered in fixed rates. At that time, the Commission did not increase customer charges to the desired levels, but did recognize in the November 22, 2002 Order (at page 5) that increases in the customer charges should be revisited in the future when NYSEG was not introducing a range of new service options that may result in customer confusion when combined with an increase in the customer charge. No such range of new service options is being proposed in this case. Additionally, the proposed increases in customer charges brings them closer to the customer and fixed distribution costs identified in the MCOS study, and are consistent with the rate principal of moving the fixed charges out of the variable charges and into the fixed customer charges. In its March 7, 2003 Order Adopting Recommended Decision With Modifications in Cases 02-E-0198 et al., the Commission approved an increase in the monthly electric customer charge. In reaching that decision, the Commission stated, at page 78, that the rate change moved the customer charge "closer to marginal costs, which is in accordance with sound ratemaking principles…." In the May 20, 2004 Order Adopting Provisions of Joint Proposals With Conditions in Cases 03-E-0765 et al., electric and gas monthly customer charges were increased for several service classes, with the recognition that the charges were moving closer to their underlying marginal cost. The proposed increase in customer charges continues moving such charges closer to the customer and fixed distribution costs identified in the MCOS study, and is consistent with the rate principal of moving the fixed charges out of variable kWh charges and into the fixed customer charges. Additionally, the NYSEG and RG&E approach in this proceeding is consistent with the Commission's recognition in the Companies' most recent rate cases concerning "the objectives of achieving more cost-based rates and [the Commission's] desire to minimize adverse bill impacts." Order Establishing Rate Plan in Case 09-E-0715 et al. at pages 40-41.

Q. Are there any other objectives you applied in designing rates?

A. Yes. For all the NYSEG service classes with an Industrial/High Load Factor ("IHLF") sub-class, NYSEG proposes to continue the elimination of that sub-class as agreed to in Case 09-E-0175. The IHLF rates are in the sixth year of a seven year phase-in period toward standard class rates. The proposed rate design continues this phase-in while taking into consideration the overall revenue increase. The remaining rate change to complete the move to the standard service class for these customers will occur in September 2016, at which time IHLF rates will no longer exist. See Exhibit __ (RARDEDT-10), Schedule 1.

Q. Has NYSEG proposed any non-rate changes to its service classes ("SC")?

A. Yes, NYSEG is proposing to eliminate the space heating rate option in NYSEG SC-2 General Service with Demand Metering, SC-6 General Service, and SC-9 General Service – Day Night.

Q. Please further explain the proposed changes.

A. The space heating option was closed to new customers in 1977. There are fewer than 300 SC-2 space-heating customers. NYSEG believes this rate option is no longer appropriate and should be eliminated.

Q. Do you plan on performing a bill impact analysis for the affected customers?

A. Yes. However, that analysis is still underway and will be provided when it becomes available.

Q. What specific rate changes does the Panel propose for each service class for NYSEG and RG&E?

A. A comparison of present and proposed rates is shown in Exhibit __ (RARDEDT-10). For purposes of this testimony and the exhibits, the per-month customer charges do not include the BIPP charge, which is an unbundled per-bill charge. As applicable, the customer charges do include competitive metering service rates. Changes to the BIPP and competitive metering charges are discussed later in this testimony.

Q. Please detail the specific service class rate changes.

A. We will first describe the NYSEG service class rate changes followed by the RG&E service class rate changes.

A. <u>NYSEG Electric Rate Design</u>

Q. What rate design change is proposed for NYSEG's electric SC-1 – Residential Service?

A. For electric SC-1, NYSEG proposes to raise the customer charge by $3.78 per month to $18.89 per month. The monthly customer charge is supported by the MCOS study, which indicates that the efficient customer charge is $53.41. Although this increase does not raise the customer charge to the level indicated by the MCOS study, it moves the customer charge in the right direction. The remainder of the increase is applied to the delivery kWh charge, resulting in an increase of $0.00766/kWh, for a proposed charge of $0.04096.

Q. What rate design change is NYSEG proposing for electric SC-2 – General Service-Secondary?

A. For electric SC-2, NYSEG proposes to raise the customer charge, which is currently the same for the standard service class and the IHLF sub-class, by $4.40 per month from $17.61 to $22.01 per month. The monthly customer charge is supported by the MCOS study, which indicates that the efficient customer charge is $248.56. As noted above, although this increase does not raise the customer charge all the way to the level indicated by the MCOS study, it does move the customer charge in the proper direction. The next step in designing the service class's initial rates is to update the existing demand charges and delivery kWh charges for the standard service class and the HLF sub-class to collect the combined service class required delivery revenues. As noted above, delivery kWh charges are reduced where possible. For this service class, the proposed demand charge for the standard class is increased to $10.02 and the proposed delivery kWh charge is reduced to $0.00274. In a similar manner, the proposed demand charge for the IHLF sub-class is increased to $9.60 and the proposed delivery kWh charge is decreased to $0.00261. The demand and delivery kWh charges for the IHLF sub-class will increase September 2016, with a corresponding revenue-neutral decrease to the standard service class charges ending with equal component charges as the IHLF sub-class joins the standard class. The annual demand and delivery kWh charges are summarized in Exhibit __ (RARDEDT-9), Schedule 1.

Q. Does NYSEG propose to apply the same rate design process and phase-in to consolidate the IHLF sub-classes with the standard service classes for SC-3 and SC-7?

A. Yes. The same design process with the September 2016 IHLF phase-in completion date applies to SC-3 and SC-7 (the other service classes with IHLF sub-classes). The annual demand and delivery kWh charges are summarized in Exhibit __ (RARDEDT-9), Schedule 1.

Q. Is NYSEG proposing specific rate design changes for electric SC-3P – General Service – Primary?

A. Yes. For electric SC-3P, NYSEG proposes to raise the customer charge to $91.01 per month. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $780.50. The proposed demand charge for the standard class is increased to $7.51 and the proposed delivery kWh charge is decreased to $0.00116. The proposed demand charge for the IHLF sub-class is increased to $7.25 and the proposed delivery kWh charge is decreased to $0.00112.

Q. Is NYSEG proposing specific rate design changes for electric SC-3S – General Service – Sub-Transmission?

A. Yes. For electric SC-3S, NYSEG proposes to raise the customer charge to $303.14 per month. The monthly charge for SC-3S is supported by the MCOS study for SC-3S, which indicates that the efficient customer charge is $780.50. The proposed demand charge for the standard class is increased to $4.87. NYSEG proposes to eliminate the delivery kWh charge because the proposed SC-3S revenue requirement can be achieved by increasing the demand charge by less than the overall percentage increase, thereby eliminating the need for a delivery kWh. Recovering delivery costs through a customer and demand charge is consistent with the SC-7 Sub-Transmission service class.

Q. Please describe the Panel's specific rate design changes proposed for electric SC-5 – Outdoor Lighting - General Service and Residential customers.

A. We will discuss Outdoor Lighting rate design changes when we discuss Street Lighting and Outdoor Lighting later in our testimony.

Q. What is the Panel's specific rate design proposal for electric SC-6 – Small General Service – Secondary?

A. For electric SC-6, NYSEG proposes to raise the customer charge to $22.00 per month, an increase of $4.40. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $56.29. The remainder of the increase is collected through the delivery kWh charge, resulting in a proposed charge of $0.04453.

Q. What is the Panel's specific rate design proposal for electric SC-7-1 – Secondary Large General Service TOU?

A. For electric SC 7-1, NYSEG proposes to raise the customer charge to $146.39 per month. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $441.99. The proposed demand charge for the standard class is increased to $9.90. The proposed demand charge for the IHLF sub-class is increased to $9.60.

Q. What is the Panel's specific rate design proposal for electric SC-7-2- Primary – Large General Service with Time-of-Use?

A. For electric SC-7-2, NYSEG proposes to raise the customer charge to $511.39 per month. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $4,281.43. The proposed demand charge for the standard class is increased to $8.29. The proposed demand charge for the IHLF sub-class is increased to $7.94.

Q. What is the Panel's specific rate design proposal for electric SC-7-3 – Sub-Transmission – Large General Service Time-of-Use?

A. For electric SC-7-3, NYSEG proposes to raise the customer charge to $1,061.39 per month. The monthly charge is supported by the MCOS study for SC-7-2, which indicates that the efficient customer charge is $4,281.43. The proposed demand charge for the standard class is increased to $2.79. The proposed demand charge for the HLF sub-class is increased to $2.49.

Q. What is the Panel's specific rate design proposal for electric SC-7-4 – Transmission – Large General Service Time-of-Use?

A. Since the efficient customer charge per the MCOS study is lower than the current customer charge for SC 7-4, NYSEG proposes to maintain the current customer charge of $1,914.11 per month. The proposed demand charge for the standard class is increased to $1.10. The proposed demand charge for the HLF sub-class is increased to $0.98.

Q. What specific rate design changes does NYSEG propose for electric SC-8 – Residential Secondary, Day-Night?

A. The current SC-8 customer charge will be increased to $21.75 per month, an increase of $4.35. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $55.59. The remainder of the increase is collected through the delivery kWh charge, resulting in a proposed charge of $0.03671.

Q. Are there other changes proposed for the NYSEG SC-8?

A. Yes, changes are proposed to the commodity rates for SC-8. Those changes will be discussed later in this testimony.

Q. What is the Panel's specific rate design proposal for electric SC-9 – Small General Service Secondary, Day-Night?

A. For electric SC-9, NYSEG proposes to raise the customer charge to $25.51 per month, an increase of $5.10. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $57.09. The remainder of the increase is collected through the delivery kWh charge, resulting in a proposed charge of $0.03492.

Q. Please describe the proposed changes to electric SC-11 – Standby Service.

A. NYSEG is proposing to update each of the standby rate components by the delivery rate increase percentage. This is a change to the design of the standby delivery rates from the method approved by the Commission in its July 30, 2003 Order Establishing Electric Standby Rates issued in Case 02-E-0779 ("NYSEG Standby Order").

Q. Why is NYSEG proposing a change in methodology?

A. The allocation to the "local" and shared portions of the standby rate was based on the allocation factors established in the NYSEG Standby Order, with the portion of the revenue deemed "local" collected through the contract demand charge and the "shared" portion collected through the daily as-used demand charge. Revising the standby rates using this methodology, along with updated billing determinants, may result in shifts between the contract and as-used rate components. NYSEG is aware that standby rates are being discussed in the REV Proceeding (Case 14-M-0101) and changes to the standby rate guidelines approved by the Commission in Case 99-E-1470 may be developed through the REV Track 2 Order. Until such time that standby rates are modified through the REV Proceeding, NYSEG proposes to maintain the current allocation between the customer charge, contract demand charge and as-used demand charge by increasing each rate component by the delivery rate increase percentage.

Q. How many customers are served under SC-11 – Standby Service?

A. Currently, NYSEG has 35 customers with on-site generation that are billed under SC-11 – Standby Service. Standby rates are not applicable to the many customers with on-site generation that qualify for net metering. There are also 7 customers with on-site generation that were exempt from standby rates in accordance with the current tariff provisions and are billed at their otherwise applicable service class rates.

Q. What specific rate changes is NYSEG proposing for SC-11?

A. The present and proposed rates for SC-11 are included in Exhibit __ (RARDEDT-10), Schedule 1. Bill impacts for the current standby customers, summarized by parent service class, are included in Exhibit __ RARDEDT-13), Schedule 4.

Q. Is NYSEG proposing specific rate design changes for electric SC-12 – Residential Time-of-Use?

A. The current SC-12 customer charge will be increased to $30.14 per month, an increase of $6.03. The monthly charge is supported by the MCOS study, which indicates that the efficient customer charge is $118.52. The remainder of the increase is collected through the delivery kWh charge, resulting in a proposed charge of $0.03902. As mentioned for SC-8, NYSEG is also proposing changes to the commodity rates for SC-12. Those changes are discussed later in this testimony.

B. <u>NYSEG Street Lighting and Outdoor Lighting</u>

Q. Is NYSEG proposing any changes to its Street Lighting and Outdoor Lighting rates?

A. Yes, NYSEG is proposing to increase all the lighting rates by a uniform percentage. The specific rates for Street Lighting SCs -1, -2,- 3, -4 and Outdoor Lighting SC-5 are listed in Exhibit __ (RARDEDT-10), Schedule 1.

Q. Are there any changes specific to the SC-3 Street Lighting Service?

A. Yes. NYSEG is proposing to add three LED light options to its Street Lighting SC-3 service class. The proposed rates are also listed in Exhibit __ (RARDEDT-10), Schedule 1. NYSEG proposes to remove the references to providing separation costs in its Street Lighting tariff applicable to customers that purchase the street lighting system.

Q. Are there additional changes that NYSEG is proposing for Outdoor Lighting Service?

A. NYSEG proposes to clarify in its Outdoor Lighting tariff that it will charge for the installation of glare shields based on cost of the installation. Currently, the charge for these requests is administered pursuant to Charges for Special Services, however, adding tariff language in the Service Classification will clarify what the customers will be charged for based on the customer's request.

C. <u>RG&E Electric Rate Design</u>

Q. Please generally describe the rate design process for RG&E Electric.

A. The process follows the rate design principles described above and the manner in which rates were designed for NYSEG. The only difference is that the revenues for RG&E Electric service classes are decreasing. For all standard service classes, RG&E first increases the monthly customer charge by 25% as stated above. The remaining revenues that are not collected through the customer charge are recovered through the demand charge or delivery kWh charge, depending on the specific service class. Since all electric service classes receive some level of revenue decrease, demand and delivery kWh charges are reduced accordingly to achieve the target delivery revenue requirement for each service class.

Q. Please continue with the specific rate design changes the Panel proposes for each RG&E service class.

A. For electric SC-1 – Residential Service, RG&E proposes to raise the customer charge to $26.73 per month, an increase of $5.35. The monthly customer charge increase is supported by the MCOS study, which indicates an efficient monthly price of $36.75. Although this increase does not raise the customer charge all the way to the level indicated by the MCOS study, it does move the customer charge in the right direction while taking bill impacts into consideration. After the customer charge increase, the remaining revenues are collected through the delivery kWh charge, resulting in a proposed charge of $0.02736 per kWh, a decrease of $0.00836 from the current delivery kWh charge.

Q. What rate design change is RG&E proposing for electric SC-2 –Small General Service?

A. For electric SC-2, RG&E proposes to raise the customer charge by $5.35 per month, from $21.38 to $26.73. The monthly efficient customer cost per the MCOS is $169.71 and, therefore, the MCOS study supports this increase. As noted above, although this increase does not raise the customer charge all the way to the level indicated by the MCOS study, it does move the customer charge in the proper direction while considering bill impacts. The remaining revenues are recovered through the kWh charge, resulting in a decreased charge of $0.01832 per kWh.

Q. What is RG&E proposing for electric SC-3 – General Service – 100 Kilowatts Minimum?

A. The MCOS study indicates that an efficient monthly customer charge of $669.15 is warranted for SC-3. RG&E is proposing to raise the customer charge by $52.92 per month to $264.58 per month. The remaining revenues are recovered through the monthly demand charge, resulting in a reduced charge of $15.07 per kW. The minimum demand charge is adjusted to reflect the change in the monthly demand charge.

Q. Is RG&E proposing specific rate design changes for the electric SC-4 – Residential Service – Time-of-Use Rate?

A. Yes. RG&E is proposing to increase the monthly customer charges by $6.34, to $31.70, for Schedule I, and by $7.21, to $36.05, for Schedule II. This increase in customer charges is supported by the monthly efficient customer cost of $70.33 per the MCOS study. The remaining revenues are recovered through the delivery kWh charges. For Schedule I, the resulting delivery kWh charge is decreased to $0.03328. For Schedule II, the resulting delivery kWh charge is decreased to $0.04578.

Q. Are there other changes proposed for the RG&E Residential TOU classes?

A. Yes. As mentioned above for NYSEG, changes are proposed to the commodity rates for Residential TOU. Those changes are discussed later in this testimony.

Q. Please address RG&E's proposal for electric SC-6 – Area Lighting Service.

A. We will discuss Outdoor Lighting rate design changes when we discuss Street Lighting and Outdoor Lighting later in our testimony.

Q. Does RG&E propose modification for electric SC-7 – General Service – 12 kW Minimum?

A. Yes. The MCOS study suggests an efficient monthly customer charge of $399.52 is warranted for SC-7. RG&E is proposing to increase the customer charge by $15.54 per month to $77.71. RG&E is proposing to decrease the 0-200 hours use and greater than 200 hours use delivery per kWh charges to $0.00806 per kWh, and collect the remainder of the revenues through the monthly demand charge, resulting in no change to the demand charge.

Q. What is RG&E's proposal for electric SC-8 – Large General Service – Time-of-Use?

A. RG&E proposes to raise the monthly fixed customer charges for each SC-8 service voltage level by 25% with the exception of SC-8 Transmission. Even with the proposed increases, the customer charges for all service voltages but SC-8 Transmission in this class will remain at levels below the efficient customer charges provided by the MCOS study. The remaining revenue for each service voltage will be recovered through the monthly demand charge. The SC-8 Transmission customer charge will remain at its current level of $2,626.05 per month, and a decrease in the demand charge of $0.06/kW (to $8.07/kW). SC-8 – Primary rates will see a monthly customer charge increase of $203.60 (to

$1,017.99 per month), and a decrease in the demand charge of $0.34 /kW (to $12.56/kW). The grandfathered SC-8 – Sub Transmission – Industrial rates will see a monthly customer charge increase of $376.03 (to $1,880.13 per month), and a decrease in the demand charge of $0.21/kW (to $8.32). The grandfathered SC-8 – Sub Transmission – Commercial rates will see a monthly customer charge increase of $360.49 (to $1,802.46 per month), and a decrease in the demand charge of $0.34 /kW (to $9.00 /kW). SC-8 – Substation rates will see a monthly customer charge increase of $350.06 (to $1,750.30 per month), and a decrease in the demand charge of $0.59 /kW (to $8.13 /kW). Finally, SC-8 – Secondary rates will see a monthly customer charge increase of $161.98 (to $809.91 per month), and a decrease in the demand charge of $0.47 /kW (to $12.79 /kW). The minimum demand charge for each voltage level is adjusted to reflect the change in the monthly demand charges.

Q. Please describe RG&E's proposed changes for electric SC-9 – General Service – Time-of-Use.

A. RG&E proposes to increase the monthly customer charge by $16.46 to $82.29 per month, a move supported by the results of the MCOS study. Similar to SC-7, RG&E is proposing to lower the delivery kWh charge to $0.01327 and recover the remaining revenues through the monthly demand charge, resulting in no change to the demand charge.

Q. Is RG&E proposing any changes to electric SC-14 – Standby Service?

A. Yes, RG&E proposes to change the standby rates to reflect the proposed revenue requirement.

Q. Please describe the proposed changes.

A. As stated above for NYSEG, RG&E is also proposing a change from the method approved by the Commission in its July 29, 2003 Order Establishing Electric Standby Rates in Case 02-E-0551 ("RG&E Standby Order") for updating SC-14 Standby Service rates. Since RG&E is proposing to decrease its electric delivery rates, the proposal is to lower each of the standby rate components by the delivery rate decrease percentage.

Q. Why is RG&E proposing to use a different method to update standby rates?

A. Under the methodology in the RG&E Standby Order, the allocation between the local and shared portions of the standby rate is based on the results of the MCOS study, with the portion of the revenue deemed "local" collected through the contract demand charge and the "shared" portion collected through the daily as-used demand charge. Updating the standby rates with this methodology may result in shifts between the contract and as-used rate components. RG&E is aware that standby rates are being discussed in the REV Proceeding and changes to the standby rate guidelines approved by the Commission in Case 99-E-1470 may be developed through the REV Track 2 Order. Until such time that standby rates are modified through the REV Proceeding, RG&E proposes to maintain the current allocation between the customer charge, contract demand charge and as-used demand charge by decreasing each rate component by the delivery rate decrease percentage.

Q. How many customers are served under SC-14 – Standby Service?

A. Currently, 21 customers with on-site generation that are billed under SC-14 – Standby Service. Standby rates are not applicable to many customers with on-site generation that qualify for net metering.

Q. What specific rate changes is RG&E proposing for SC-14?

A. The present and proposed rates for SC-14 are included in Exhibit __ (RARDEDT-10), Schedule 2. Bill impacts for the current standby customers, summarized by parent service class, are included in Exhibit ___ (RARDEDT-13), Schedule 5.

D. <u>RG&E Street Lighting and Outdoor Lighting</u>

Q. Is RG&E proposing any changes to its Street Lighting and Area Lighting rates?

A. Yes, RG&E is proposing to increase all the lighting rates by uniform percentage. Like NYSEG, RG&E is proposing to add three LED light options to its Street Lighting SC 1 service class. The specific rates for Street Lighting SC-1, 2, 3 and Outdoor Lighting SC-6 are listed in Exhibit __ (RARDEDT-10), Schedule 2.

Q. Are there any changes specific to Street Lighting Service?

A. Yes. As discussed for NYSEG, RG&E also proposes to remove the references to providing separation costs in its Street Lighting tariff applicable to customers that purchase the street lighting system. Additionally, for RG&E, we are proposing to remove reference to providing the annual list of Street Light inventories.

Customers receive an itemized list of facilities on their bill each month and can also request an inventory from RG&E.

Q. Are there additional changes RG&E is proposing for Area Lighting Service?

A. RG&E is also proposing to clarify in its Outdoor Lighting tariff that it will charge for the installation of glare shields based on cost of the installation. Currently, the charge for these requests is administered pursuant to Charges for Special Services. However, adding tariff language in the Service Classification will clarify what the customers will be charged for based on the customer's request.

E. <u>General Rate Design</u>

Q. What is the effect of the revenue allocation to the different service classifications and the resulting rate design changes proposed by the Companies?

A. Exhibit __ (RARDEDT-10) compares the present and proposed rates for each NYSEG and RG&E service classification. Exhibit __ (RARDEDT-12) illustrates the effect of the revenue increases on customer total bills for a range of usage levels and Exhibit __ (RARDEDT-13) illustrates the effect of the revenue increase on customer delivery-only bills for a range of usage levels. Estimated customer counts based on historical billing information are provided for each usage level.

Q. Please comment on the impacts the proposed rate changes may have on lower-use residential customers.

A. The Companies are aware of the longstanding belief that low income customers also are low use customers and that higher fixed charges would negatively affect this group. NYSEG and RG&E reviewed the usage levels for residential customers that participated in NYSEG's or RG&E's Bill Credit and Arrears Forgiveness programs. As seen in Exhibit __ (RARDEDT-12) and __ (RARDEDT-13) the distribution of participating customers across usage levels is similar to all customers and not disproportionately clustered at the lower use levels.

V. GAS REVENUE ALLOCATION PROPOSAL

Q. Please describe the gas delivery revenue requirement.

A. Similar to the approach used for electric, the Panel begins with the delivery revenue requirement supported by the Revenue Requirements Panel for NYSEG and RG&E. The delivery revenue requirement consists of the base delivery revenue requirement (customer and therm charge revenues) and other delivery revenue adjustments. This Panel allocates revenues to service classifications and designs rates for each class on the proposed gross base delivery revenue requirement for that class, adjusted to remove the component that will be collected through the MFC charge and the BIPP charge. For NYSEG Gas, MFC delivery revenues are increasing and for RG&E Gas, MFC delivery revenues are decreasing from current levels. BIPP revenues are increasing for NYSEG and decreasing for RG&E. Accordingly, rates for base delivery revenues must be increased or decreased so that the combination of base delivery, MFC and BIPP revenues equates to the total delivery revenue requirement for NYSEG or RG&E, as applicable. The development of base delivery revenues by service classification and other delivery revenue adjustments is summarized on Exhibit __ (RARDEDT-15).

Q. How do the Companies build rate discounts for economic development programs into gas delivery rates?

A. As discussed for the electric revenue allocation, the Companies design their base delivery rates, including increases, based on the gross delivery rate year revenue requirement. The delivery revenues summarized in Exhibit __ (RARDEDT-15) include the discounts associated with economic development.

Q. What revenue allocation process do the Companies propose to use for gas delivery rates?

A. The Companies use the same process described above for electric. Service class index rates of return that result from the ECOS studies are used to guide revenue allocation, with a 15% tolerance band applied to the results. Service classifications whose rates of returns fall outside the 15% band received an increase or decrease of 1.25 or .75 times the average delivery increase depending on the direction from the tolerance band. The classes whose index rates of return are within the 15% band receive an increase equal to the average delivery increase adjusted for any residual amount that remains from allocations to customers outside the band. Those results are presented in Exhibit __ (RARDEDT-16). For the purpose of this analysis, NYSEG service classes SC-1 and SC-13 and SC-2 and SC-14, respectively, were combined because the rates for those classes are designed together. The same was done for RG&E service classes SC-1 and SC-5.

In this way, the same delivery rates will apply to all customers, regardless of the customer's supplier.

Q. What did the Panel conclude from this analysis for NYSEG Gas?

A. As shown in Exhibit __ (RARDEDT-17), the SC-5T and SC-9S service classes' index rate of returns are outside the 15% band. The index rates of returns of 1.59 and 1.70 respectively are outside the 15% band so an increase of .75 times the average delivery increase of 22.2% was applied to each class.

Q. What did the Panel conclude from this analysis for RG&E Gas?

A. As also shown in Exhibit __ (RARDEDT-17), the SC-3 and SC-3 HP service class returns are outside the 15% bands. The index rate of return for SC-3 is .06 which is below the 15% band so an increase of 1.25 times the average delivery increase of 15.9% was applied to this class. The index rate of return for SC-3 HP is .63 which is also below the 15% band. However, there is only one customer taking service on SC-3 HP. It is difficult to rely on the ECOS results for a class with only one customer and, therefore, an average delivery increase was applied to this class.

VI. GAS SERVICE CLASS RATE DESIGN

Q. Please describe the general principles the Panel applied in designing rates, including how the Companies considered bill impacts in designing the service class delivery rates.

A. The principles and use of MCOS studies to guide rate design are the same as those described above for electric rate design. In designing rates to cover the service class revenue requirement, we compared current rates to the efficient prices established by the MCOS study supported by Company Witness Nieto. We compared currently effective customer charges to marginal cost-based efficient prices, which are based on the fixed customer costs and facilities costs (referred to as "customer charges" in this section). To the extent that the efficient prices exceeded the current charges, we increased the customer charge. However, in consideration of bill impacts, we imposed a constraint in most circumstances such that no customer charge within a class would be increased by more than 25%. In a similar manner, tail block rates were compared to the marginal cost-based therm charges. If the marginal cost rate was greater than the tail block rate, the proposed tail block rate was increased toward marginal cost. If the marginal cost rate was less than the currently effective tail block rate, no change was proposed to that rate in recognition of Commission efforts to encourage energy efficiency. The remaining dollars to recover from the class are collected through the remaining block rates. A comparison of present and proposed rates for each of the classes is provided in Exhibit __ (RARDEDT-16).

A. <u>NYSEG Gas Service Class Rate Design</u>

Q. What specific rate design changes is NYSEG proposing for gas SC-1 and SC-13T rates?

A. For gas SC-1S and SC-13T rates, NYSEG proposes to increase the customer charge from the current $16.30 to $20.38 for Heating customers and from the current $12.30 to $18.38 for Non-Heating customers. NYSEG is proposing to phase-out the separate Non-Heating customer charge for both SC-1S and SC-13T. The MCOS study results show the marginal fixed costs (customer and facilities costs) for heat and non-heat customers range from $70.92 to $71.64. Since these amounts are relatively equal, there is no cost justification for providing a separate customer charge for non-heating customers. The remaining difference between the Heat and Non-Heating customer charge will be eliminated in the next rate filing. Since the currently effective tail block rate of $0.1220 for the SC-1 and SC-13 classes exceeds the marginal cost rate of $0.0022, no change is proposed to the tail block rate and the remainder is applied to the "Next 47 therm" block rate. The result is an increase from $0.5193/therm to $0.65947 /therm.

Q. What rate design changes are being proposed for NYSEG gas SC-2S and SC-14T rates?

A. For gas SC-2S and SC-14T rates, NYSEG proposes to increase the customer charge from the current $23.60 to $29.50 per month. This increase is well within the customer charges supported by the MCOS study, which range from $252.02 to $367.58 per month. Since the currently effective tail block rate of $0.1197 for the SC-2 and SC-14 classes exceeds the marginal cost rate of $0.0022, no change is proposed to the tail block rate and the remainder of the increase is applied to the "Next 497 therm" and "Next 14,500 therm" block rates. The result is an increase for the second block from $0.3378/therm to $0.41295/therm and from $0.19460/therm to $0.23789/therm for the third block.

Q. What rate design changes are being proposed for NYSEG gas SC-5S rates?

A. For gas SC-5S rates, NYSEG proposes to increase the customer charge from the current $16.86 to $30.32 per month. No increase is proposed to the volumetric charge due to the marginal cost rate being lower than the currently effective unit rate, and therefore, the increase is being collected entirely through the customer charge.

Q. What is NYSEG proposing for gas SC-9S rates?

A. For gas SC-9S rates, NYSEG proposes to increase the customer charge by 25% from the current $243.87 to $304.84 per month. The MCOS study, which shows a marginal fixed cost rate for this class as $1,258.54, provides sufficient support for this movement in the customer charge. Since the marginal per therm rate for this class is less than the currently effective tail block rate, NYSEG proposes no change to that block rate. The remainder is applied to the "Next 14,500 therm" block rate. The result is an increase from $0.1655/therm to $0.18460/therm.

Q. What rate design changes are being proposed for gas SC-1T rates?

A. For gas SC-1T rates, NYSEG proposes to increase the customer charge from the current $1,124.19 to $1,405.24 per month. The MCOS study supports a monthly fixed price of $3,891.16. Once again, no change is proposed to the tail block rate because the marginal cost-based rate is lower than the currently effective rate. The remainder of the increase is applied to the "Next 14,500 therm" and "Next 35,000 therm" block rates. The result is an increase for the second block from

$0.1186/therm to $0.16143/therm and from $0.0639/therm to $0.08697/therm for the third block.

Q. What rate design changes are being proposed for NYSEG gas SC-5T rates?

A. For gas SC-5T rates, NYSEG proposes to increase the customer charge from $243.87 to $304.84 per month. The MCOS study supports a monthly customer charge of $2,397.86. No change is proposed to the tail block rate because the marginal cost-based rate is lower than the currently effective rate. The remainder of the increase is applied to the "Next 14,500 therm" block rate. The result is an increase for the second block from $0.1687/therm to $0.19645/therm.

Q. Has NYSEG proposed any changes to the gas rates for Distributed Generation ("DG") Service?

A. Yes. NYSEG has four service classes for DG Service: SC-10 – Non-Residential Distributed Generation Firm Sales Service < 50 MW; SC-16 – Firm Gas Transportation Service for Distributed Generation Facilities < 50 MW; SC-11 – Residential Distributed Generation Firm Gas Sales Service; and SC-19 – Residential Distributed Generation Gas Transportation Service. The original DG rates were designed in compliance with the Commission's December 3, 2003 Order Granting Petition For Rehearing In Part and Clarifying Order, and the August 4, 2004 Order Providing for Gas Service for Residential Distributed Generation, both issued in Case 02-M-0515. The rates were developed based on the rates of existing residential and non-residential service classes and adjusted for an increased load factor. NYSEG is proposing to maintain the current relationships between the DG rates and the rates of the non-DG service classes. The current and proposed rates for these DG classes are displayed in Exhibit __ (RARDEDT-16).

B. <u>RG&E Gas Service Class Rate Design</u>

Q. What specific rate design changes is the Panel proposing for the RG&E SC-1 and SC-5 classes?

A. For SC-1 and SC-5 rates, RG&E proposes to increase the customer charge from the \$16.30 to \$20.38 per month consistent with the changes for NYSEG SC-1S. The MCOS study, which shows monthly fixed costs ranging from \$67.21 for the SC-5 Residential Non-Heat class to \$580.80 for the SC-1 Industrial class, supports this increase. As with electric rates, although this increase does not move the customer charge to the level indicated by the MCOS study, it does move it closer to that level while limiting the bill impacts on the lowest use customers. RG&E proposes to increase the volumetric block rates, using the methodology and constraints previously described, to the amounts displayed in Exhibit __ (RARDEDT-16).

Q. What rate design changes are being proposed for RG&E SC-3 rates?

A. For SC-3 rates, RG&E proposes to increase the customer charge from \$1,080.00 to \$1,350.00 per month. The MCOS study, which exhibits monthly fixed costs for SC-3 customers ranging from \$2,580.12 to \$3,578.97, supports this increase. As with the increase to the first block in SC-1 and SC-5 rates, this increase does not move the customer charge to the level indicated by the MCOS study, but moves it in the right direction, while limiting the bill impacts on the lowest use customers in this class. RG&E proposes to increase the volumetric block rates, using the methodology and constraints previously described, to the amounts displayed in Exhibit __ (RARDEDT-16).

Q. What rate design changes are being proposed for SC-3 High Pressure rates?

A. For SC-3 High Pressure service, RG&E proposes to leave the customer charge at its current rate of $1,550.00 per month. The monthly efficient customer charge of $1,353.52 is below the current customer charge so no increase is warranted. RG&E proposes to increase the volumetric block rates, using the methodology and constraints previously described, to the amounts displayed in Exhibit __ (RARDEDT-16).

Q. Has the RG&E proposed any changes to the gas rates for DG?

A. Yes. RG&E has four service classes for DG Service: SC-6 Non-Residential Distributed Generation Firm Sales Service < 50 MW; SC-7 Firm Gas Transportation Service for Distributed Generation Facilities < 50 MW; SC-8 Residential Distributed Generation Firm Gas Sales Service; and SC-9 Residential Distributed Generation Gas Transportation Service. The original DG rates were designed in compliance with the Commission's Orders listed above in Case 02-M-0515. The rates were developed based on the rates of existing residential and non-residential service classes and adjusted for an increased load factor. RG&E is proposing to maintain the current relationships between the DG rates and the rates of the non-DG service classes. The current and proposed rates for these DG classes are displayed in Exhibit __ (RARDEDT-16).

Q. What is the effect of the revenue increase allocation to the different service classifications and the rate design changes proposed by the Companies?

A. Exhibit __ (RARDEDT-16) compares the present and proposed rates for each NYSEG and RG&E service classification. Exhibit __ (RARDEDT-18) and Exhibit __ (RARDEDT-19) illustrate the effect of the revenue increases on total bills and delivery-only bills, respectively, for a range of usage levels. Estimated customer counts based on historical billing information for a winter and summer month are provided for each usage level. Similar to the electric bill impacts, the distribution of usage for customers that participated in in NYSEG's or RG&E's Bill Credit and Arrears Forgiveness program is similar to all customers and not disproportionately clustered at the lower use levels.

Q. Is RG&E planning to add an interruptible sales or transportation service classification?

A. RG&E is not planning to add an interruptible service at this time. RG&E considered whether there was a need for interruptible service to assist with a system constraint, gas expansion or growth needs of existing customers. RG&E does not currently have a distribution constraint that would be relieved by offering interruptible service and it does not forecast to have one in the near future. Furthermore, RG&E does not see any gas expansion possibilities in the RG&E

territory that would benefit from interruptible service. RG&E will re-evaluate this issue in its next rate filing to determine if the situation has changed.

VII. GAS DELIVERY SERVICE CLASS REALIGNMENT STUDY

Q. Please describe the gas rate realignment studies referenced earlier.

A. As noted above, the 2010 JP, Appendix S, Paragraph K.1 states "RG&E Gas will study whether its rate structures should be redesigned in a manner consistent with NYSEG Gas rate structures and will present its findings in its next rate case after the Commission Order in this Proceeding." RG&E hired Concentric Energy Advisors to complete the realignment study. As described in the realignment report provided in Exhibit __ (RARDEDT-20), the project's objective was to conduct a thorough analysis of approaches to creating RG&E gas rate structures that are consistent with the NYSEG gas rate structures. Bill impacts resulting from customers changing service classes are included in the analysis.

Q. Do the Companies propose to do any rate re-alignment in this one-year rate filing?

A. No. However, the Companies are providing this information as we believe it could be considered in the context of any multi-year settlement discussions.

Q. What are the specific analyses conducted and major findings of the RG&E realignment study?

A. The following is a list of the analyses that were performed by Concentric Energy Advisors along with the Companies' recommendations based upon these results:

1) A statistical analysis was performed to determine homogenous service class groups for RG&E non-residential customers. Based on this analysis, it is recommended that the current NYSEG service classifications be used to classify non-residential transportation service classes for RG&E.
2) Customer specific billing data was used to identify the new service classification each RG&E non-residential customer would be assigned to.
3) Rate design models were developed to calculate gas rates under the new service class structure. The new rates were designed to be revenue neutral. In other words, the new rates produce the same total revenues as those produced by the current RG&E rates.
4) Bill impact models were developed to determine the bill impacts that customers would experience by moving to a new service class.
5) The bill impact models use monthly usage profiles based on historic billing data for all customers and for a wide range of annual usage levels. Based on the results of the bill impact models, the Companies recommend that aligning the RG&E gas service classifications to be consistent with the NYSEG service classifications could be accomplished with small to moderate bill impacts on the majority of RG&E customers.

Q. Did the study consider any significant changes to the NYSEG gas rate structure that also impact the RG&E gas rate structure?

A. Yes. A separate realignment study was conducted for NYSEG, as shown in Exhibit __ (RARDEDT-21), to ensure consistency between NYSEG and RG&E.

As a result, there are two modifications to the existing NYSEG rate structure that are recommended for both RG&E and NYSEG. The first modification would set upper and lower volumetric limits for:

1) the SC-2 / SC-14T Non-Residential Aggregation Transportation classes ("Proposed Small Non-Residential");
2) SC-5T Small Transportation and the new SC-5T equivalent sales classification ("Proposed Medium Non-Residential"); and
3) SC-1T and the new SC-1T equivalent sales classification ("Proposed Large non-Residential") gas service classes.

These upper and lower size limits would ensure that similar-sized customers are grouped together and charged the same rates.

The second change is the creation of two new sales service classes that have the equivalent delivery rates to the small transportation and large transportation service classes. An additional recommended modification, which applies only to RG&E, is that separate residential and non-residential service classifications would be developed, rather than the current RG&E General Service classification that applies to both residential and non-residential customers.

Q. Why are annual volumetric limits being proposed?

A. After the last rate case, RG&E experienced a large migration of customers moving from SC-3 to SC-5. Currently, there is nothing that prohibits a customer who qualifies for service under SC-3 from moving back and forth between SC-3 and SC-5. With the inclusion of an additional transportation service class, the realignment study proposes to add an upper limit to the non-residential aggregation transportation services, and an upper and lower volumetric limit to the proposed small customer transportation service class. Implementing volumetric requirements will ensure similar sized customers are provided service on the same service class.

Q. Why does the study propose to add two new sales service classes for RG&E and NYSEG?

A. The new sales classes are set at the same delivery rates as the equivalent transportation classes. Currently, SC-1 and SC-5 for RG&E have the same delivery rates. The only difference between the classes is customers on SC-1 buy their gas commodity from RG&E, and SC-5 customers obtain their gas commodity from an energy services company ("ESCO"). However, there is no sales service class with equivalent delivery rates to RG&E SC-3. The same is true for the NYSEG SC-1 and SC-13 rates and the SC-2 and SC-14 rates. The realignment study proposes to have sales and transportation rates with consistent delivery rates for the majority of the services it offers.

Q. What are the new service classifications that resulted from the realignment study?

A. The service class categories are as follows:

1) Residential sales/aggregation service;
2) Non-Residential sales/aggregation service;
3) Small sales/small transportation service; and

4) Large sales/large transportation service.

Q. What analysis was included in the realignment study that supports the volumetric limits being proposed?

A. A statistical analysis of all RG&E non-residential customers was performed to determine the upper and lower limits for small, medium and large non-residential sales and transportation service classifications that would: 1) group together customers that are most similar to each other, as measured by annual consumption; and 2) separate customers that are most different from each other. The results of this analysis indicate that 6,000 dekatherms per year is the optimal separation between the aggregation and small transportation classes. The analysis also indicated the optimal separation between the small and large transportation and sales classes is 31,000 dekatherms per year. However, based on full consideration of: 1) the results of the RG&E statistical analysis; 2) the results of a similar statistical analysis that was prepared for NYSEG; and 3) other operational and practical considerations, such as the number of RG&E and NYSEG customers that would be reassigned to a different size based service classification, RG&E would choose to use the current NYSEG large transportation limit of 25,000 dekatherms per year to provide consistency between the Companies' service offerings. The number of customers between the 25,000 and 31,000 dekatherms limits is approximately 12 so the lower limit does not impact a significant number of customers. Details of this analysis are included in Exhibit __ (RARDEDT-20).

Q. Are the Companies proposing to implement the new gas rate structures as suggested by the realignment study?

A. The Companies support the results of the realignment study and concur that the RG&E gas delivery rate structure can be realigned in a manner that is consistent with the NYSEG gas delivery rate structure. However, the Companies are not proposing to implement the new gas rate structure at this time. As we previously testified, this information is being provided to inform any multi-year settlement discussions.

Q. Please further explain the Companies' rationale for the proposal concerning realignment.

A. The Companies are submitting the realignment studies in this case as required by the 2010 JP provision referenced earlier in this testimony. There are other matters that need to be considered before moving forward with realignment, such as modifications to billing systems, metering requirements, communications with customers, impacts on energy service companies ("ESCOs"), and potential changes in upstream services. As discussed in the testimony of the Policy Panel, the Companies intend to submit multi-year information shortly after this Rate Filing. To address the various issues listed above, the Panel recommends that gas rate realignment be the subject of the multi-year discussions.

VIII. VOLUNTARY RESIDENTIAL TOU RATE

Q. Do the Companies propose any changes beyond those discussed above for delivery rates to the current Voluntary TOU service classes?

A. Yes, for voluntary residential TOU customers receiving Supply Service from the Companies, NYSEG and RG&E propose to remove the hedge adjustment from the calculation of the commodity charges for NYSEG SC-8 and SC-12, and RG&E SC-4, Schedules 1 and 2. The Companies also plan to apply the cost of the capacity component to just the on-peak hours as opposed to all the hours.

Q. Why do the Companies propose to make these changes?

A. These changes are proposed to provide better market price signals to customers that choose a voluntary residential TOU rate.

IX. ELECTRIC LOAD SHAPES

Q. Do the Companies propose to update the current electric load profiles used for calculating the variable price and in the development of load serving entity load for the New York Independent System Operator ("NYISO")?

A. Yes.

Q. Describe how the proposed electric load profiles were developed.

A. The Companies contracted with Itron, Inc. ("Itron") to update the current electric load profiles for a number of service classes in the NYSEG and RG&E service territories. These profiles were developed to support the load settlement process with the NYISO (both energy and capacity tagging) and for commodity rate calculations. For each service class and month, Itron estimated three-day type profiles, which include a typical week-day, typical Saturday, and typical Sunday. These updated profiles were also used in the ECOS studies.

X. COMPETITIVE SERVICE RATES

Q. Did the Companies use the results of the ECOS study to develop unbundled rates for Competitive Services?

A. Yes, the Companies used the results from the ECOS study to develop unbundled rates for the MFC, BIPP, and electric Competitive Metering. Exhibit __ (RARDEDT-23) includes the unbundled rates for these functions.

Q. Do the Companies propose that the Commission adopt the unbundled rates shown in Exhibit __ (RARDEDT-23)?

A. The Companies are proposing to continue to use the same process reflected in Appendix W of the 2010 JP for resetting and reconciling the MFC with one exception. The final MFC rates will be included in the Companies' compliance filings submitted after an order is issued in this case. The final MFC rates will include a more recent update for: 1) Uncollectibles; 2) Working Capital for purchased power; 3) Working Capital for gas underground storage inventory; and 4) Working Capital for commodity hedge margins. The Companies propose that the Commission adopt the MFC process, BIPP charge, and meter charges as shown in Exhibit __ (RARDEDT-23), subject to any necessary modifications as a result of Commission changes to the Companies' ECOS studies.

Q. Please describe the current components of the electric MFC.

A. The electric MFC consists of five components (Commodity Uncollectibles, Administrative Component, Credit and Collection/ Call Center ("CCCC") Component, Working Capital for Purchased Power and Commodity Hedge Margin Accounts, and Prior Year True Up Component). The Gas Merchant Function Charge does not include Working Capital for purchased power. Instead, it includes Working Capital for storage inventory.

Q. Will the Panel please describe how the Commodity Uncollectibles Component will be updated and reconciled?

A. The Companies are not proposing any changes to the currently effective process for calculating the Uncollectibles Component of the MFC calculation. The fixed uncollectible percentage will continue to be updated annually based on 12 months of historic data. The percentage will be applied to monthly commodity costs and, accordingly, the Uncollectible Component of the rate will be updated monthly. The Uncollectible revenues are not reconciled.

Q. Please describe how the Administrative Component will be updated and reconciled.

A. The Administrative Component includes Energy Supply Department expenses, allocations of A&G, common plant, and other miscellaneous overheads and common allocations. These amounts come straight from the ECOS study results and can be found on Exhibits __ (ECOS-A11, -B11, -C11, and -D11). The Companies are not proposing any changes to the currently effective process for updating and reconciling the Administrative Component of the MFC calculation. The Administrative Component will be based on the ECOS study results and will remain the same until the next rate case. The forecasted units will be updated annually when the rate is reset. The Administrative Component will be reconciled to the amounts from the ECOS studies based on the variance between actual and forecasted sales.

Q. Please describe how the Working Capital Components will be updated and reconciled.

A. The Companies are not proposing any changes to the currently effective process for updating and reconciling the Working Capital Components of the MFC calculation. The Working Capital on purchase power and the commodity hedge margin account will be reset annually based on a recent 12 month historical period. This component will be reconciled to actual expenses for the same time period. It should be noted that the Working Capital associated with the commodity hedge margin account is only charged to small customers because the Companies only hedge commodity for the non-demand customer population.

Q. Please describe the Prior Year True Up component.

A. The variances for the reconcilable components are tracked monthly and the net of the variances are collected from or refunded to supply customers once the rates are reset annually. Under collections and over collections are rolled into the next year's MFC rate through the Prior Year True Up component.

Q. How do the Companies propose to calculate the gas MFC?

A. The same methodology used to calculate the electric MFC was used to develop the gas MFC. The gas MFC contains the same five components mentioned above for electric. The Working Capital component for the gas MFC includes Working Capital on storage inventory and also Working Capital on the commodity hedge margin account. There is no inclusion of Working Capital on purchased gas in the MFC rate. Additionally, the Working Capital on the commodity hedge margin account for gas is applicable to all sales customers.

Q. Please explain how the Working Capital Components will be updated and reconciled for the gas MFC.

A. The Companies are not proposing any changes to the currently effective process for updating and reconciling the Working Capital Component of the gas MFC calculation. The Working Capital on storage inventory and the commodity hedge margin account will be reset annually based on a recent 12-month historical period. This component will be reconciled to actual expenses for the same time period.

Q. Do the Companies propose any change to the electric and gas MFC rate calculations?

A. Yes. The Companies propose to change the calculation of the Credit and Collection/ Call Center Expense component. Currently, the expenses for these activities are taken directly from the results of the ECOS study and a joint rate is calculated by dividing the total expenses by both full service forecasted units and a forecast of POR units. One CCCC rate is developed and is used as a component in the calculation of the POR discount rate and it is also used as a component in the MFC. The Companies propose to break the link between the POR discount rate and the MFC, and instead propose to separately calculate and reconcile the two rates.

Q. Why are the Companies proposing to break the link between the CCCC used for both the MFC rate and the POR discount rate?

A. Currently, the timing of the rate setting and true ups for two rates are the reason for the proposal. The POR discount rate and the MFC rate are set on different schedules.[3] The reconciliation of each of these rates is also on different schedules even though they are both reconciled through the POR discount rate reset. Additionally, the MFC rate is applicable to retail commodity customers and the POR rate applies to customers that participate in the POR program. These are two distinct sets of customers that can support recovery of the CCCC separately.

Q. Please explain the method the Companies propose to use to calculate the CCCC Component of the MFC.

A. The Companies propose to take the CCCC expenses from the ECOS study results and apply a fixed percentage factor based on recent data to represent the MFC-related CCCC expenses. That figure would serve as the numerator and it would stay the same until the next rate case. The denominator would be the forecasted

[3] The POR discount rate is filed on July 1st with a September 1st effective date. The MFC is filed at the end of August with a September 1st effective date.

full service units for the relevant company and this would be updated annually when the rate is reset. This method is similar to the process used to set and reconcile the Administrative component of the MFC. The MFC-related CCCC expenses would be reconciled to the fixed portion of the amounts from the ECOS study based on the variance between actual and forecasted sales. The variances would be either refunded or collected through the MFC Prior Year True Up component.

Q. Would the Panel further explain the "fixed percentage factor" previously identified?

A. The fixed percentage factor would be the percentage of the forecasted retail company-supplied units divided by the sum of forecasted retail company-supplied units and the POR actual units. This data would be taken from the calculations for the Credit and Collection Adder Component from the most recent (September 1, 2015) POR discount rate filings. The most recent filings should provide the best reflection of migration levels between NYSEG or RG&E commodity customers and POR customers.

Q. How do the Companies currently reconcile the MFC-related CCCC expenses?

A. The MFC-related CCCC expenses are currently reconciled through the annual calculation of the POR discount rate. Reconciliation would be administratively less burdensome if we keep the MFC components within the MFC calculation and the POR-related components within the POR discount rate calculation.

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Q. What will need to change in the POR discount calculation?

A. The CCCC component of the POR discount calculation will need to be revised. As mentioned above, to get the MFC-related CCCC expenses from the ECOS study, we would be applying a fixed percentage. The balance of the CCCC expenses would, therefore, be POR-related. The CCCC percentage adder would be calculated in the same manner as the currently effective POR discount rate except it would not include MFC-related units or MFC related true ups. The POR-related CCCC expenses would be fixed until rates are reset in a new rate case. Exhibit __ (RARDEDT-22) provides an example of these calculations.

Q. How have the MFC delivery revenues changed for the four businesses from current levels?

A. The delivery-related MFC revenues for NYSEG electric, RG&E electric, and RG&E gas have decreased. The delivery-related MFC revenues for NYSEG gas have increased.

Q. What causes the changes in the delivery-related MFC revenues for each business?

A. The delivery related MFC revenues are obtained from the results of the ECOS studies. The methodology for allocating MFC related dollars within the ECOS studies has not changed from the 2008 studies. This is discussed in more detail by ECOS Witness, Mr. Heintz. The majority of the change between the current 2013 studies and the 2008 studies filed in the last case are related to the following items. First, in all four ECOS studies, the percentage of commodity-related revenues as a percentage of total revenues has decreased from the last time the costs studies were filed. This change impacts any allocation based on revenues or on a weighted allocator which includes revenues. Second, the total amount of CCCC dollars assigned to the MFC function for NYSEG or RG&E has decreased from the last case. The result is a decrease in MFC revenues for NYSEG electric, RG&E electric, and RG&E gas. The percentage split of CCCC costs between NYSEG electric and NYSEG gas has also changed, resulting in a higher percentage of CCCC costs allocated to NYSEG gas and less allocated to NYSEG electric than in the last case. The combination of the two changes results in NYSEG gas experiencing a slight increase in CCCC allocations. Third, the Administrative Component of the MFC includes all delivery-related expenses and Ratebase items other than CCCC expenses. Two of the major allocation factors used for administrative costs, Labor and Ratebase, allocated a smaller percentage of costs to the MFC function in the 2013 ECOS studies than the 2008 studies. This is true for NYSEG electric, RG&E electric and RG&E gas. For NYSEG gas, the labor allocator assigns a larger percentage of administrative costs to the MFC function in the 2013 study than the 2008 study. The 2013 NYSEG gas ECOS study corrects a misallocation of the Labor component from the 2008 NYSEG gas ECOS study.

Q. What methodology did the Companies utilize to calculate the proposed BIPP unbundled rates?

A. The current methodology was used to calculate the BIPP charge. The Companies computed the unbundled rate applicable to BIPP on a system-wide basis rather than differentiating it by service class or by service type. Both companies added the electric and gas BIPP revenues at the required rate of return, shown on the exhibits of ECOS Company Witness Heintz, Exhibits __ (ECOS-A5, B5, C5, and D5), and this total was used as the numerator. The denominator reflects an annual number of invoices for all electric, gas, and combination customers as of 2013.

Q. How will this charge be applied to combination electric and gas customers, electric only customers, and gas only customers?

A. A combination electric and gas customer will receive one BIPP charge applied to the bill. An electric only or gas only customer will also receive one BIPP charge applied to each bill. The BIPP charge for a combination customer will be the same as that for an electric-only customer and also for a gas only customer.

Q. Please explain how the Companies charge ESCOs for consolidated billing.

A. If an ESCO is providing both the electric and gas service, it will be billed an amount equivalent to the BIPP charge for each consolidated bill. If the ESCO is only providing a consolidated bill for either gas or electric service, it will also be billed an amount equivalent to the BIPP charge per consolidated bill. If a customer has separate ESCOs for electric and gas, the charge for consolidated billing will be prorated between the ESCOs.

Q. Please identify what the customer will pay for the BIPP if the customer receives consolidated billing from the utility.

A. A customer receiving consolidated billing from the Companies will not see a BIPP charge on his or her delivery bill. The customer's ESCO will, however, bill the customer for BIPP services.

Q. What process did the Companies use to update its proposed unbundled rates for Electric Competitive Metering?

A. The unbundled meter rates have been calculated in the same manner as the currently effective rates. Competitive Metering rates, applicable to eligible customers with a demand of 50 kW or greater, are differentiated by service class and contain all components of the related metering services. These components are Meter Reading, Meter Services, and Meter Ownership.

The ECOS model produces a cost analysis summary differentiated by function (e.g., Meter Reading, Meter Services, and Meter Ownership) containing the revenue requirement by service class at the required rate of return. See Exhibits __ (ECOS-A12), and __ (ECOS-B12). The Companies calculated the numerator by summing the unbundled revenues from the Meter Reading, Meter Services, and Meter Ownership functions by Service Class. The Companies then divided that total sum by the number of metered delivery points by service class. The Companies then calculated the monthly rate by dividing the annual rate by 12. See Exhibit __ (RARDEDT-23).

Q. How are the rates for Competitive Metering shown on a customer's bill?

A. Each of the components is shown separately on the bill for eligible customers.

XI. ECONOMIC DEVELOPMENT ASSISTANCE PROGRAMS

Q. Please explain what is already being collected in rates per year under the current Rate Plan for economic development.

A. The chart below shows the current rate allowances for the Companies' economic development programs.

Table 1: Current Rate Allowances Economic Development

Company	Electricity	Natural Gas
NYSEG	$6.0 million	$825,000
RG&E	$4.8 million	$222,000

Q. What are the Companies' proposed rate allowances for economic development programs?

A. The chart below shows the proposed rate allowances for the Companies' economic development programs.

Table 2: Proposed Rate Allowances Economic Development

Company	Electricity	Natural Gas
NYSEG	$2.4 million	$275,000
RG&E	$850,000	$210,000

Q. What is causing the dramatically lower economic development rate allowances?

A. The lower economic development rate allowances are due to the Companies' proposing to utilize the existing economic development reserve balance from its existing rate plan. We will discuss the details of how the Companies' propose to utilize the existing reserve balance later in the testimony.

A. Non-Rate Assistance Programs

Q. Please list the non-rate assistance electric economic development programs that NYSEG and RG&E currently offer.

A. The Companies currently offer the following non-rate assistance electric economic development programs: Brownfield/Building Redevelopment Program ("BBRP"); Utility Infrastructure Investment Program ("UIIP"); Capital Investment Incentive Program ("CIIP"); Business Energy Efficiency Assistance Program ("BEEAP"); Agricultural Capital Investment Incentive Program ("ACIIP") NYSEG only; Economic Development Outreach Program ("EDOP"); Power Quality/Reliability Program ("PQRP"); and Targeted Financial Assistance Program ("TFA"). The details of each of these programs are listed in Exhibits __ (RARDEDT-24), __ (RARDEDT-25), __ (RARDEDT-26), __ (RARDEDT-27) and __ (RARDEDT-28). Exhibits __ (RARDEDT-24), __ (RARDEDT-25) and __ (RARDEDT-26) explain our Traditional existing and proposed economic development programs. Exhibits __ (RARDEDT-27) and __ (RARDEDT-28), explain our existing TFA programs.

Q. Do the Companies propose to continue, intact, the current non-rate assistance electric economic development programs identified above?

A. The Companies propose to continue and modify their current portfolio of Traditional non-rate assistance electric economic development programs. The

Companies also propose to implement a similar NYSEG ACIIP in the RG&E service area. The Companies also propose to continue and modify the electric TFA, which will be discussed further in this testimony. As mentioned above, the Companies' economic development TFA programs are identified in in Exhibits __ (RARDEDT-27) and __ (RARDEDT-28) for NYSEG and RG&E, respectively.

Q. Before you describe the proposed modifications of your Traditional programs, please summarize the proposed changes to these programs.

A. With the exception of the ACIIP, which is already a specific business sector, and the EDOP, which provides assistance directly to economic development organizations, all of the current electric non-rate assistance programs will be enhanced with additional eligible business sectors and will provide support for projects endorsed/supported by the Regional Economic Development Councils ("REDCs") and/or the Governor's office. The ACIIP will be enhanced to include the craft beverage industry sector for both Companies. The maximum funding per project under the BBRP, the BEEAP, and the ACIIP will remain the same. Under the BEEAP, NYSEG and RG&E propose that the Companies provide similar assistance to our own energy efficiency program offerings, similar to assistance already being provided under the New York State Energy Research and Development Authority ("NYSERDA") programs. Additionally, the Companies propose that the maximum funding per project for the PQRP and the EDOP be increased. The Companies also propose to rename the current UIIP and CIIP to create two Capital Investment Incentive Programs, Tier I and Tier II, to assist both large and small eligible businesses. Both of these programs would also provide funding assistance for new mixed-use type projects. Finally, under the BBRP and PQRP, the Companies propose to also include as part of the maximum assistance per project, funding for feasibility studies/assessments.

Q. Please address the Companies' recommendations for staffing associated with these changes.

A. As summarized above, there are a number of modifications being proposed for our Traditional non-rate assistance electric economic development programs. Further testimony will also discuss modifications to our electric TFA Program, the addition of new electric non-rate assistance programs, and modifications to our natural gas non-rate assistance program. To properly support these modifications, the addition of new programs, and potential new business attraction/retention projects, the Companies request $225,000 per year to support retention of outside services to support the more robust economic development programs.

Q. What changes do the Companies propose for the Brownfield/Building Redevelopment Program?

A. The intent of the current program is to help offset electric infrastructure costs on either the NYSEG/RG&E-owned or customer-owned facilities. Before addressing the proposed modifications, we note that the maximum funding per project will not change from the current program and will remain at $500,000. The Companies propose that this program be modified to include additional eligible business sectors. The Companies recommend that these eligible business sectors be enhanced to include not only colleges/universities with regional economic benefits (e.g., state-of-the-art technologies/research that provide community benefits), but also to include health care facilities having similar community benefits.

Q. Please further explain the Companies' proposal.

A. Through a petition filed by Binghamton University in 2011 and approved by the Commission, NYSEG has been allowed to fund projects at colleges and universities that have a research and development/state-of-the-art technologies component with community/regional economic development benefits. The outcome of these synergies typically results in new jobs and further capital investments in the surrounding region. Our experience has shown that similar evolving synergies exist between research and development facilities/state-of-the-art technologies within the health care industry and businesses, colleges and universities in local communities. Accordingly, the Companies propose to include hospitals/ health care facilities that have projects that can demonstrate activities that promote research and development/state-of-the-art initiatives that may foster additional economic development and community benefits for the surrounding region beyond the investment for the project itself.

Q. Do the Companies propose modifications of the program to address the needs of other sectors?

A. Yes. To expand opportunities for the agriculture sector and consistent with recent legislation,[4] the Companies propose including the craft beverage industry such as wineries and breweries/micro-breweries. To expand opportunities for other projects endorsed/supported by the REDCs and/or the Governor's office, an entity would be eligible to participate in this program under the Companies' proposal. The Companies' economic development department works closely with the State on a number of projects that fit our current program participation requirements. As the State has added or modified programs, we have found that, due to our program eligibility requirements, we are sometimes precluded from additional participation. We feel that this action will allow us the flexibility to generate a greater level of support to the State and potential grant award recipients.

Q. Please address the Companies' goal for this type of program.

A. The enhancement to include more eligible business sectors will allow NYSEG and RG&E to support projects that lend themselves to the benefits of public - private partnerships which include supporting local, regional and state partnerships. Development of brownfield sites/building redevelopment/revitalization continues to be an important aspect of economic development across New York, as evidenced by the ongoing work of the REDCs.

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[4] See 2014 N.Y. Laws ch. 431 (amending the New York Alcoholic Beverage Control Law); see also Press Release, Governor Cuomo Signs Craft New York Act and Announces $3 Million in Promotional Funds to Further Raise the Profile of New York's Beverage Producers (Nov. 13, 2014).

To ensure sufficient and broad support for this aspect of economic development, the Companies view expansion of eligible business sectors as an important factor to the success of this program. In addition, as part of total funding per project of up to $500,000 to help offset electric infrastructure costs, assistance would also be available to include feasibility studies/assessments and/or remediation efforts that may be required for redevelopment of a brownfield site. By offering this flexibility as part of this program, the Companies and working with other community partners, the Companies intent is hope to encourage redevelopment of these sites.

Q. Would the Panel please explain the Companies proposal with respect to the Utility Infrastructure Investment Program?

A. Yes. The UIIP (Exhibit __ (RARDEDT-24)) will be renamed the Capital Investment Incentive Program – Tier I for both NYSEG and RG&E.

Q. Why did the Companies make the above described change?

A. Over the past several years, we heard from trade allies and customers that they were confused by the name "Utility Infrastructure Investment Program." Based on the feedback the Companies received, these stakeholders were under the impression that only the NYSEG/RG&E required electric infrastructure improvement costs could be included in the grant application (our electric infrastructure programs can help offset costs on either the NYSEG/RG&E-owned or the customer-owned facilities). By renaming this program the "Capital Investment Incentive Program – Tier I", the Companies intend to eliminate any possible confusion and increase our application rate all the while maintaining the same maximum grant possibility. With respect to Tier 1, NYSEG and RG&E propose the following eligibility criteria: 1) up to $400,000, on a project basis, to fund electric-related improvements on either NYSEG/RG&E-owned or customer-owned equipment; 2) the total capital expenditures for the project must be a minimum of $1,000,000; and 3) incremental monthly electric demand must be a minimum of 100 kilowatts.

Q. Please summarize the Companies' proposal concerning the current Capital Investment Incentive Program.

A. The current CIIP will also be renamed and will be modified. The new name will be the Capital Investment Incentive Program – Tier II. The participation threshold will be reduced from $1,000,000 to $500,000 for total capital expenditures and a reduction in incremental monthly electric demand from 100 kilowatts to 50 kilowatts. The maximum grant will be reduced from $300,000 to $200,000 on a per project basis, to fund electric-related improvements on the NYSEG/ RG&E-owned or the customer-owned facilities. The Companies propose to introduce the same enhanced business sectors and projects endorsed/supported by the REDCs' and/or Governor's office similar to the BBRP described above. In addition, similar to the BBRP for existing facilities, the Companies also propose to introduce *new* mixed-use facilities for funding assistance.

Q. Why are the Companies proposing this?

A. With respect to Tier II, over the past several years, we discovered that we were unable to help quite a few of our medium-sized customers even though they had a compelling case for assistance. These customers could not participate because they could not achieve the participation threshold requirements under the current CIIP. By reducing those requirements we believe that a greater number of customers will be able to participate. Through discussions with regional partners, especially those in the manufacturing sector, the Companies became aware that there are opportunities from time to time for smaller manufacturers who do not meet the current program criteria for capital investment and electric load. By establishing a two-tier CIIP, the Companies will have the flexibility to assist a wider group of businesses.

Q. Please summarize the Companies' proposal.

A. Similar to Tier I above, the Companies propose to introduce the same enhanced business sectors and support for projects endorsed/supported by the REDCs' and or the Governor's Office, similar to the BBRP described above. In addition, similar to the BBRP for existing facilities, the Companies also propose to introduce new mixed-use facilities for funding assistance.

Q. What changes do the Companies plan to make to its Business Energy Efficiency Assistance Program?

A. The Companies plan to augment their support of the BEEAP to include customers who choose to utilize a NYSEG or RG&E energy efficiency program offering.

Q. Please describe the Companies' proposal.

A. The Companies recognize that energy efficiency opportunities are currently being considered in a variety of Commission proceedings, including, for example, the REV Proceeding (Cases 14-M-0094 and 13-M-0412). The Companies also understand that NYSERDA currently is considering a shift in the way in which it supports energy efficiency programs. Although the Companies anticipate that the outcome of both the Commission's efforts and the NYSERDA review may ultimately result in changes to the energy efficiency components of economic development, the Companies propose that the energy efficiency-related economic development changes outlined below be permitted to become effective now so that stakeholders and customers can begin receiving the benefits of the changes on a more accelerated timeframe.

The Companies currently partner with the NYSERDA on several programs to encourage energy efficiency and provide supplemental assistance for feasibility studies and/or implementation of energy saving measures. Under Companies' Economic Development Business Energy Efficiency Program, the customer is required to make a financial contribution of at least 33.33% toward the feasibility study and/or total investment made for energy efficiency improvements. Currently, the Companies will provide economic development assistance through its economic development program to a customer who works only with NYSERDA to implement feasibility studies and or/ implementation of energy saving measures.

Q. How do the Companies plan to augment their support of this program?

A. The Companies have seen the benefits associated with this type of program which supports energy efficiency improvements by supplementing certain NYSERDA programs. Thus, the Companies propose to implement a similar program with the same level of funding assistance be authorized in the event participation is through a company-sponsored energy efficiency program. For consistency among our BBRP and other electric infrastructure non-rate assistance programs, we are also proposing that the same enhanced business sectors and support for projects endorsed/supported by the REDCs' and/or Governor's office as described above be applied under the NYSEG and RG&E Business Energy Efficiency Programs to support NYSERDA programs as well as our own NYSEG or RG&E-sponsored energy efficiency programs. This change will ensure consistency between the NYSEG and RG&E programs. Additionally, through the expansion of this type of economic development opportunity to encompass NYSEG and RG&E energy efficiency program offerings, both NYSERDA and NYSEG/RG&E energy efficiency goals are supported. Because both programs would afford the same level of benefits, one would not be favored at the expense of the other and participants would have available additional options.

This action gives customer more choice and will bolster their ability to stretch their energy savings dollars.

Q. Please explain what changes the Companies propose to implement to the Power Quality/Reliability Program.

A. Under this program, NYSEG or RG&E currently fund up to 50% of equipment costs required for power reliability or quality improvements to be installed behind the meter, with maximum funding assistance up to $50,000. The Companies propose to increase the maximum assistance from $50,000 to $100,000 per project in recognition of funding needs to support the latest technologies and encourage more investment in power conditioning equipment behind the meter. The Companies also propose to utilize the same enhanced business sectors and support for projects endorsed/supported by the REDCs' and/or Governor's office as described above for our other non-rate assistance programs. The increase stated above also sets the Companies' maximum funding level at the same level in place at Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid"). While the Companies recommend this increase in funding assistance, the Companies propose that total funding associated with this program should be set at a reasonable level so as not to detract from other programs. The Companies further propose that the potential available $100,000 be associated with funding for both for a feasibility study and implementation of various power quality improvements. Specifically, the Companies proposed that NYSEG/RG&E could provide funding up to $20,000 toward the cost of a feasibility study, with the customer responsible for funding at least 33.33% of the total cost of the feasibility study. By requiring the customer to fund some portion of the study with the greater contribution associated with the implementation of power quality improvements, the Companies believe the participant will have the appropriate incentive to move beyond the feasibility study phase. A thorough review of the feasibility study or analysis as it relates to the type of power conditioning equipment required will be required by the Companies prior to any grant assistance under this program.

Q. Please explain your plans for the Agricultural Capital Investment Incentive Program for RG&E.

A. The current NYSEG program is designed to assist smaller farms with converting from single phase to three phase service or new technologies, with the majority of the capital investment tied to electric infrastructure costs. The program currently in place at NYSEG has been successful. To provide the same opportunities to additional customers, RG&E proposes that it be authorized to implement the same program with the same level of funding assistance. The ACIIP recognizes the importance of the multi-billion dollar agriculture business to the overall economic well-being of the State of New York. By adopting the Companies' recommendation that the program in place at NYSEG also be implemented in RG&E's service area, the Commission can reinforce the merits of providing the same options and benefits statewide. In addition to extending the program to the RG&E service area, the Companies also propose that the agriculture sector be defined to include the craft beverage industry such as microbreweries. This expansion of the definition properly recognizes the substantial growth of this industry and the contribution it is making to New York's economic development landscape.

Q. Please explain proposed changes to the Economic Development Outreach Program.

A. Currently, the Companies may supplement other economic development funding up to $50,000 on a per-initiative basis to economic development organizations, for strategic outreach initiatives that will primarily focus on promoting or attracting new business investment to the NYSEG and RG&E service areas across New York. NYSEG and RG&E propose that the maximum contribution level be increased from $50,000 to $75,000. As explained above, the recent efforts of New York State and the Governor's Office and/or the REDCs, coupled with the growth in other economic development organizations and initiatives (e.g., promotion of battery storage, entrepreneurship, business incubators, Centers of Excellence, clean technologies, and business attraction efforts outside of New York) the need for economic development outreach has become increasingly important. By affording additional flexibility in funding levels, the Companies can provide more assistance in those areas beyond their current programs, and thus again, provide stakeholders greater options.

Q. Please explain the proposed changes to the Companies' electric TFA Programs.

A. These programs have been in place for many years and are used for special business attraction/retention projects, including, in particular, in partnership with comprehensive assistance packages offered by Empire State Development and other community partners. However, because they were developed at different times, the Companies' respective TFA Programs have distinct differences. The Companies propose to maintain these programs, and utilize them for only special situations that require additional funding assistance beyond what can be provided under our Traditional electric economic development programs. The Companies' recommendations for this program recognize the benefit of bettering some of the key elements among the NYSEG and RG&E TFA programs.

Q. Please explain the Companies' recommendation concerning better alignment of these TFA Programs.

A. In 2007, RG&E received approval from Staff to offer more flexibility to its TFA program. To provide better consistency among the NYSEG and RG&E programs and to provide similar flexibility for the NYSEG program, there are some elements of the NYSEG TFA program that the Companies propose be modified/eliminated to better align with the RG&E TFA Program. In addition, the Companies propose to introduce the same business sectors proposed for our Traditional economic development programs, especially competitive projects that are endorsed by one of the Empire State Development's ("ESD") REDCs and/or the Governor's Office.

Q. Please describe key elements to be proposed and incorporated into the NYSEG TFA, similar to RG&E's TFA program.

A. Similar to RG&E's TFA program, grant assistance will be utilized to help offset electric infrastructure improvements on either the NYSEG or RG&E-owned

and/or customer-owned equipment and will not be in the form of any additional rate discount. Assistance can be provided per project not one time per customer; the maximum assistance over a three-year period will be $1,750,000, along with elimination of the up to $750,000 spending cap in any one year. Removing the annual spending cap in special situations will also allow NYSEG the flexibility to better align funding assistance with project construction schedules. NYSEG, like RG&E, will also ensure that use of TFA program assistance is carefully monitored so annual spending limit under its economic development program is maintained. Also, we are proposing that the requirement for a facility at NYSEG must be served at primary, sub-transmission or transmission voltage level also be eliminated. This change recognizes that the decision to offer TFA funding should be based more on the overall project benefits, and not be contingent upon the type of service voltage provided to the facility. In addition, because experience has shown that corporate restructuring typically results in adjustments to employment levels, it is necessary to allow more flexibility to partner with other economic development allies to retain business in the region. Therefore, similar to RG&E, for NYSEG, we propose flexibility to align our assistance with employment levels established under a Community Benefits package offered by our economic development partners, typically through ESD. Finally, for both Companies, we recommend the Companies be allowed some level of flexibility for both retention and attraction projects regarding electric load, load factor, employment levels, and budgeted payroll and benefits, if we are participating as part of a Community

Benefits Package that is associated with one of our REDCs and/or Governor's office. Actual grant assistance awards from the Companies under the TFA programs will depend on a number of factors, including collaboration with our community partners and assessment for a project and its overall benefits to New York. Both Companies would still maintain the right to exercise discretion in the use of TFA assistance for a unique business expansion or attraction project.

Q. Do the Companies propose the addition of any non-rate assistance electric economic development programs?

A. Yes. The Companies propose to add the Commercial Corridor/ Main Street Revitalization Assistance Program, the Manufacturing Accelerator Program, and the Innovation Zone-Ignition Grant Program.

Q. Please provide an overview of the proposed Commercial Corridor/Main Street Revitalization Assistance Program.

A. As noted above, in addition to evaluating our own programs, NYSEG and RG&E reviewed other utility programs in the state as part of their effort to identify economic development program best practices. For example, the Companies identified and evaluated program elements from two National Grid economic development programs related to urban revitalization. The Companies then consulted with their urban regional partners to combine key elements of these programs into a single new program called the Commercial Corridor/Main Street Revitalization Program. This program would be a vehicle to help revitalize main street corridors. The program also will assist multiple corridors/districts to help revitalize small businesses in distressed business districts and commercial corridors, while supporting/promoting sustainable investments in designated districts or zones (i.e., eco-districts). Eco-districts have been implemented around the United States and embrace sustainability as a way to revitalize downtown and commercial corridor communities.

The following is a summary of this program's parameters: this program would provide funding assistance for electric infrastructure, lighting installations associated with street improvements, site preparation, building rehabilitation and other hard costs deemed appropriate by the development agency in revitalizing the area. The development of a pre-project study and/or drawings to advance an urban design plan associated with lighting improvements may also be considered for funding assistance. The program would provide up to $20,000 with 50% matching funds from other sources toward the development of a study and/or drawings.

This program would also provide matching grants up to $200,000 per project to municipal, non-profit development organizations and similar entities involved in efforts to revitalize a targeted area.

Q. Please provide an overview of the Companies' proposed Manufacturing Accelerator Program ("MAP").

A. The Companies propose the implementation of a MAP similar to a program offered by National Grid's established and successful Manufacturing Productivity Program. The MAP will assist company customers with funding for productivity improvement projects needed to improve their costs and response times in the face of increasingly severe domestic and foreign competition. The MAP will also provide funding for companies willing to commit time and resources to growth projects that can combine improved productivity with innovations in products, processes and markets to increase revenue and help secure the companies' long-term future.

The Companies anticipate the benefits to customers associated with this program can be transformative and will continue greatly to the health of the New York manufacturing sector. For example, in describing its analogous program in its September 2014 report to the Commission,[5] National Grid noted that "[t]his program has grown to become one of National Grid's most active and successful economic development initiatives." National Grid also indicated that as of year-end 2013, participants reported a total positive economic impact (e.g., increased and retained sales, cost savings, new investments, and value of jobs) of $320 million. Critical to the success of this program is the partnership between NYSEG/RG&E and the state's network of Regional Technology Development Centers ("RTDCs"). These non-profit organizations are part of the U.S. Department of Commerce/National Institute of Standards and Technology ("NIST") funded Manufacturing Extension Partnership system. The RTDCs are

[5] Cases 12-E-0201 and 12-G-0202 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric and Natural Gas Service, Economic Development Grant Programs – 2014 Annual Report at page 2 (Sept. 30, 2014).

staffed with experienced manufacturing consultants and have a proven history of delivering productivity and growth services that generate significant economic impact. Under the new program proposed by the Companies, the eight centers covering NYSEG/RG&E-served counties will identify qualifying firms, develop performance improvement projects, assist companies in applying for MAP grants, deliver approved services and ensure project impact results. The results are captured through a national client survey system directed by NIST and administered by a third party survey firm. Under the MAP, NYSEG or RG&E would provide escalated matching grants depending on productivity improvements, growth targeted activities, and a combination of the two initiatives.

Q. Please provide an overview of the proposed Innovation Zone - Ignition Grant Program.

A. The Companies propose this program to provide support for businesses in the early startup stages. In particular, NYSEG and RG&E anticipate that this program will help early stage startups get past the "valley of death" stage of development by providing much needed early stage funding to help them move closer to commercial success. As part of this program, NYSEG or RG&E would provide financial support to potential high growth companies that agree to locate in a recognized innovation zone within the service territory of either NYSEG or RG&E. The Companies would make the awards on a competitive basis based on the technical and commercial opportunity of the business. The Companies would typically make the award to pre-revenue companies at a proof-of-concept stage, with funding awards up to $25,000, with 50% matching funds from other sources. Awarded funds could be used for market and/or customer research, business model or business plan development, prototype/product development, and intellectual property/patent related activities.

Q. Please provide a description of the NYSEG and RG&E Economic Development Electric Traditional Program offerings that will be commencing in 2016.

A. Exhibit __ (RARDEDT-26) includes descriptions of the Economic Development Traditional Programs, including the program eligibility criteria and other key requirements.

Q. Do the Companies expect that they will be able to continue to support and work with the State in the development of emergency fund assistance programs as events and conditions dictate?

A. Yes. The emergency programs that the Companies developed in conjunction with the State have been well received by the public and extremely beneficial to customers whose businesses have been devastated by the impact of catastrophic events. Due to the magnitude and scope of these extreme events, the exact details of future programs will be worked out with New York State authorities on a case-by-case basis.

Q. Would the Panel identify the anticipated spending commitment levels the Companies are proposing?

A. Yes. NYSEG and RG&E currently reflect in rates approximately $2.1 million (NYSEG) and approximately $3.6 million (RG&E) for non-rate assistance electric programs. With our experience and proposed enhancements of electric related economic development programs, the Companies propose that funding for these programs be set at $4 million per year each for NYSEG and RG&E.

Q. Please provide the basis for the Companies' proposed level.

A. Although, on average, we have spent slightly less than the proposed funding level per year over the last few years, spending levels have been showing a consistent upward trend. In fact, historically, the average annual spending over the past seven years was $3.5 million per year. As the local, state and national economies continue to grow, that trend will continue and we will see spending levels climb upward and average out at a $4 million level per year. In addition, the Companies expect that the introduction of the new programs and the modification of several Traditional programs as discussed above will contribute to an increased average annual spend.

Q. How do the Companies plan to address the electric reserve currently on the books as a result of prior unspent funds?

A. The table below summarizes amounts in the reserve funds as of December 31, 2014.

Table 3: Current Reserve Funds As Of December 31, 2014

Company	Electricity	Natural Gas
NYSEG	$14.5 million	$1.7 million
RG&E	$15.6 million	$0.9 million

The Companies plan a multi-faceted approach. We intend to utilize the electric reserve funds for the proposed ESC Project in the NYSEG service area in Ithaca, New York, which is more fully discussed by the Reforming the Energy Vision Panel. The ESC Project is an opportunity for our Companies to test the environment for community and customer engagement, integrated grid operations, and planning and collaborative market development. To support the ESC Project, we intend to utilize existing electric reserve funds for the ESC Project under NYSEG for a total of $5 million over a four-year period.

At the same time, the Companies intend to maintain $500,000 per year for the potential for another emergency program and/or special business attraction/retention project at NYSEG. Similarly, to also maintain $250,000 per year for the potential for a new emergency program and/or special business attraction/retention project at RG&E. This would be in each of the five-years, beginning in 2017.

In addition, after allocation of funds for the ESC Project and the potential for emergency programs or special projects, the Companies plan to proactively draw down a portion of the reserve annually, with the overall goal of a zero balance by 2021. These special business attraction/retention projects in the past have included projects such as Agro-Farma (Chobani) and Corning Incorporated. These projects had a competitive alternative and required an increased level of economic development assistance beyond what the Companies could provide under our Traditional programs. In the event we exhaust our traditional annual spending dollars, the Companies propose they be permitted the flexibility to proactively utilize any remaining reserve funds to support our economic development initiatives outlined above. Maintaining a steady revenue stream in rates, while at the same time drawing down the reserve, will enable the Companies to continue supporting the needs of the traditional customer, special projects and emergency program assistance as they arise.

Q. Please explain the Companies prior and proposed plans to educate customers and other stakeholders about the Companies' economic development programs.

A. In the past, the Companies participated in a number of trade shows, economic development conferences, networking events, and promoted our programs in several publications. The Companies are currently authorized to utilize up to $100,000 in web-site enhancements/marketing materials to market our programs. Moving into the future, we intend to enhance our business relationships with the REDC Directors and other economic development partners with the goal being to seek opportunities for funding assistance for individual projects and to support New York State efforts as a whole. We recognize the need for further enhancements to our websites, including, for example, use of case studies, demographics, and video of testimonials. In addition, the Companies propose to automate our economic development application via a web-based application and to purchase a Client Management System to improve efficiency and tracking of programs, funding and grant levels at any given time.

Q. Please explain the non-rate assistance natural gas programs that NYSEG and RG&E currently offer and what changes, if any, are being proposed by the Companies for these programs.

A. NYSEG has had in place a Natural Gas Infrastructure program for quite some time. This program will continue to provide grants to help offset natural gas infrastructure costs for both utility and customer-owned facilities. However, pursuant to the terms of the 2010 JP, Appendix S, the maximum overall spending for NYSEG is capped at $100,000 per year. In practical terms, this means generally only up to $25,000 per project (essentially only four projects per year). This relatively small amount of assistance for each project coupled with the overall annual cap does not provide sufficient incentive to customers to undertake a project. In other words, in weighing their options, the amount of assistance available is insufficient to commit to further investment. This relatively small level of assistance per project is significantly lower than the amount of assistance for the Companies' electric infrastructure programs, which currently range from $300,000 to $500,000 per project. Exhibit __ (RARDEDT-29) details NYSEG's existing Natural Gas Infrastructure Assistance program.

RG&E does not currently have a formal Natural Gas Infrastructure Program. The Joint Proposal adopted in December 24, 2004 Order Adopting the

Terms of A Joint Proposal Regarding Economic Development Rates and Approving Related Tariff Filings in Cases 02-E-0198 et al. references Prime Site Utility infrastructure Program and BBRP non-rate programs.

To enhance available funding assistance and thus encourage expansion within the service area and attract projects to the area, NYSEG and RG&E propose lowering the minimum capital investment to $100,000 per project and to provide a maximum of up to $200,000 in assistance per project. The Companies also propose to determine grant levels commensurate with the size of the project and several factors, including capital investment and natural gas infrastructure improvements. Additionally, as is the case under the non-rate assistance electric programs, the actual grant award would be available for either NYSEG-owned/RG&E-owned facilities or customer-owned facilities. Exhibit __ (RARDEDT-30) details NYSEG and RG&E's proposed program.

Q. Would the Panel identify the anticipated spending commitment levels the Companies are proposing?

A. Yes. Total annual program assistance funds for NYSEG would be set at $600,000. Total annual program assistance funds for RG&E would be set at $400,000.

Q. Are there any additional reasons in support of NYSEG and RG&E proposals?

A. Yes. We are aware of projects that have NYSEG and RG&E infrastructure costs in the $300,000 to $1.5 million range. The Companies anticipate that with the increased level of assistance to help offset such costs that would be available under the Companies proposals, the customer would be more likely to move forward with natural gas. Additionally, as noted above, there are new economic development programs through New York State, including for example Start-Up New York as well as increased activity by REDCs across New York to review and approve projects through the Consolidated Funding Application ("CFA") Process. To date, NYSEG and RG&E have not been able to support many of these projects and similar programs through partnership participation, but would be able to upon implementation of the Companies' proposed changes to its program. For consistency, this natural gas infrastructure program would also adopt similar proposed enhancements to business sectors proposed under the electric non-rate assistance programs including projects that are endorsed by one of the REDCs and/or the Governor's office.

Q. How do the Companies plan to address the gas reserve currently on the books as a result of unspent funds?

A. The Companies plan to proactively draw down a portion of the reserve each year, with the goal of a zero balance by 2021.

B. <u>Economic Development Rate Programs</u>

Q. What economic development rate programs do the Companies offer non-residential electric customers?

A. The Companies offers discounted rates for qualifying customers located in an Economic Development Zone ("Empire Zone") that obtains Empire Zone certification and for qualifying customers that participate in the Excelsior Jobs

("EJ") program. These discounted rates are offered under NYSEG's Economic Development Zone Incentive ("EDZI"), RG&E's Empire Zone Rates ("EZR"), and the Companies' EJ programs. Load qualifying for these program are billed at discounted delivery rates for service classes in which the marginal cost rates are lower than the standard base delivery rates.

Q. Are the Companies proposing any rate changes for these programs?

A. Yes. The Companies are proposing new delivery rates for the programs based on the results of the MCOS studies.

Q. How did the Companies establish the proposed rates?

A. The Companies applied the efficient prices from the MCOS studies to the service class billing determinants to calculate marginal delivery dollars and then compared to the proposed base delivery dollars by service class. The marginal dollars were used to develop rates in all cases where the marginal delivery dollars are lower than the proposed dollars at standard service class rates. For electric, this resulted in EDZI and EJ rates for NYSEG SC-3P, SC 7-1 and SC 7-2 and for RG&E's EZR and EJ rates for SC-3, SC-8 – Secondary, SC-8 – Primary, SC-8 – Sub-transmission – Industrial, SC-8 – Sub-transmission - Commercial, and SC-8 – Transmission. In the instances where the efficient prices resulted in marginal delivery dollars that exceed proposed standard base delivery dollars (NYSEG SC-2, 3S, 7-3 and SC7-4, and RG&E SC-2, 7 and SC-8 – Substation), no EDZI or EJ rates are proposed for the class. It is possible that, depending on a particular customer's monthly usage pattern, a customer with an incentive rate could incur higher costs in a particular month based on the incentive rate than under the standard rate. The current tariffs have provisions stating the customer will pay the lower of the OASC bill or economic incentive bill in any particular month.

Q. Will current EDZI, EZR, and EJ customers be subject to the proposed rate changes?

A. Yes, the proposed rates will apply to the qualifying load of current customers under one of the rate programs.

Q. Please describe the specific economic development rate changes you propose for each class.

A. Exhibit __ (RARDEDT-14) compares currently effective EDZI, EZR, and EJ rates to those proposed herein for each applicable NYSEG and RG&E service classification, based on the methods described above.

Q. What economic development rate programs do the Companies offer non-residential gas customers?

A. The Companies offer discounted rates for qualifying gas customers located in an Empire Zone that obtain Empire Zone certification under the EDZI or EZR program and for qualifying customers that participate in the EJ program. Based on the marginal cost of service study, discounts are available for NYSEG SC 1T customers and RG&E SC-3 customers.

DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

Q. What is the basis for not offering discounted rates for the EDZI, EZR, and EJ programs participants in service classes other than NYSEG SC 1T and RG&E SC-3?

A. As was done for electric, the Companies used the results of the MCOS study, which produced efficient prices. The Companies applied the efficient prices from the MCOS study to the service class billing determinants to calculate marginal delivery dollars and then compared those to the proposed base delivery dollars by service class. Where the marginal dollars for a service class were greater than the proposed based delivery dollars, economic development incentives are not applicable.

Q. What discounts do the Companies propose to offer the service classes where a discount was justified by the marginal cost of service study?

A. The Companies propose to offer the same delivery discounts that are currently available to the qualifying customers in the NYSEG and RG&E tariffs. The NYSEG SC-1T eligible customer will receive a percentage discount to each per therm block rate, except for the customer charge. The percentage discount by year of participation after the certificate eligibility date are as follows:

Years 1-3 60%, Year 4 50%, Year 5 40%, Year 6 30%, Year 7 20%, Years 8 -10 10%. Similarly, the RG&E SC 3 eligible customer will receive a percentage discount to each per therm block rate, except for the customer charge. The percentage discount by year of participation after the certificate eligibility date are as follows: Years 1-3 50%, Year 4 -6 30%, Years 7 -10 10%.

XII. LOST AND UNACCOUNTED FOR GAS

Q. What is the Companies' proposal regarding the recommendations included in the Staff White Paper on LAUF Gas that was provided to the gas utilities on January 27, 2012?

A. The Companies intend to incorporate the recommendations provided in Staff's White Paper with the following clarifications and revisions.

Adjustments to the fixed Factor of Adjustment ("FOA") should be allowed for exogenous events. Exogenous events would include, but not be limited to, events such as flooding and significant theft of service. The Companies should not be penalized for such events outside their control.

Adjustment to the fixed FOA should also be allowed for significant and unanticipated impacts due to the restructuring of the natural gas industry in New York State. Some of this restructuring could occur as a result of the introduction of Marcellus Shale gas into the system and other events. The above adjustments should apply to the calculation of the actual FOAs in any given year for incentive purposes. The proposed System Performance Adjustment ("SPA") adjustment is a commodity related adjustment for both full service and transportation customers; it is not a delivery adjustment. As such, the Companies propose to institute any such adjustment through its current surcharge mechanisms for full service and transportation customers.

Q. What is the five year average LAUF ending August 31, 2014 for each company?

A. The five year average LAUF for NYSEG is 1.00028 and 1.00540 for RG&E.

Q. What is the five year average that NYSEG and RG&E propose to use as their basis for the allowed LAUF?

A. The Companies propose to update the five year average ending August 31, 2014 to five years ending August 31, 2015. The new LAUF will go into effect with the gas year commencing September 1, 2016. The Companies will switch to the SPA methodology as modified above for the gas year September 1, 2016 through August 31, 2017 and going forward.

XIII. REV FEES AND SURCHARGE MECHANISMS

Q. Please discuss the potential for the Companies to offer new products and services, as presented through the REV Proceeding.

A. The Reforming the Energy Vision Panel describes some of the potential changes in the New York utility industry and the role of the utilities as Distribution System Platform Providers ("DSPs"). The new REV environment anticipates the introduction of new products and services by various market participants. The Companies believe that there will be an opportunity for the Companies, operating as the DSP, to seek new revenue sources through a variety of value based fees for offering some of these products and services. While the REV focus has been largely on electric service, the Companies are proposing to have fee schedules for both electric and gas, particularly since many of our customers are combination service customers.

Q. What types of products and services might the Companies offer?

A. The types of products and services which the Companies could offer as the DSP will evolve as the many policy decisions in the REV Proceeding are resolved over the next several months and years. However, in the REV Proceeding, the Commission stated that the DSP will provide or sell a set of products or services to customers and service providers and provided several examples. February 26, 2015 Order Adopting Regulatory Framework and Implementation Plan in the REV Proceeding ("REV Order") at page 34. With the advent of REV, the Companies anticipate there will be numerous requests for providing customer data to ESCOs, vendors, or third parties interested in doing business within the service territory. There will also be projects in which outside parties will need to interconnect to the Companies' systems. Some potential products and services in this circumstance that may have value in the market could include interface studies, system mapping data, system loading data, customer information, equipment rating data, and protection coordination studies.

Additionally, through the Companies' participation in the REV Market Design and Platform Technology working group, a preliminary list of products and services were developed that may have value to other parties above and beyond traditional company-provided delivery and provider of last resort commodity services which could be offered. The preliminary list includes load management services, aggregation services, services associated with a customer portal, customer information and data analytics, enhanced reliability and resiliency services, billing services, metering services, energy advisory services, metering and verification services, and DER interconnection services.

Q. How do the Companies propose charging for these new products and services?

A. The Companies anticipate proposing to use a fee-based structure that is based on the value that each such product and service provides to market participants and other users of the products and services.

Q. Why do the Companies propose to charge separate fees for these products and services based on value?

A. The REV Order notes that utilities could find earning opportunities in enhanced performance and in transactional revenues, rather than simply building infrastructure, which will be addressed further in Track Two (REV Order at page 12). Under the evolving REV model, the Companies can develop and offer products and services that have not previously been offered. Such products and services would be purchased by those entities who find value in the various offerings. The "buyer" has the choice to purchase or not to purchase. The offering of these products and services will be of value to the "buyer" but will not necessarily benefit all customers. The concept of fees for extra services or products is not a new one. It has been introduced in many other competitive industries such as Airlines, Banking, Hotel, Travel, Telephone, and Cable. Fees will be established for the various products and services and customers and other market participants will have the option of purchasing for the fee or opting not to purchase, based on the value these entities place on the particular product or service.

Q. How will the new value based fees be calculated?

A. The Companies will look at competitive rates in the utility industry and also within other industries which may be using a value-based fee approach. Analyses may also need to be conducted to determine what value a buyer may place on acquiring the data/products from the Companies as opposed to the costs and level of work needed to obtain the same product from another source. Depending upon the product and the circumstances, there also may be situations where the fee/rate is negotiated. Since this is new territory, we do not want to limit our options at this time. It is very likely that the fees will be iterative since finding the market clearing price (where the price offered by the DSP meets the price the market is willing to pay) may take some time, especially in the early stages of a developing market.

Q. Please address the Companies' proposal concerning to whom they will charge these new fees.

A. In general, the fees would be charged to the buyer of the product or service. The buyer could be a retail customer, a wholesale customer, a DSP, a vendor, a municipality, an ESCO, another utility, or an aggregator.

Q. How will the new value based fees be collected?

A. The Companies are proposing to list these new potential products and services as a statement in its tariff, the prices for which can be updated on three days' notice. Fees may be assessed per service (monthly or annually), or per occurrence of request. There may be instances in which up front deposits might be required. These issues will continue to be worked on as REV proceeds.

Q. Are there any current examples of the Companies establishing a fee for products and services?

A. As previously stated, the Companies anticipate that there will be numerous requests for providing customer data to ESCOs, vendors, or third parties interested in doing business within the service territory. In Case 14-M-0564, the current Sustainable Westchester community choice aggregation pilot program, NYSEG and Consolidated Edison Company of New York, Inc. ("Con Ed") are proposing value based fees for providing aggregated data services. The proposed fees are being developed based on the "market value" of the product/service. There is a value implicit in the aggregated customer data currently maintained by a utility. If the utilities were to provide this information in one concise package, the municipalities and the ESCOs would avoid door-to-door marketing and advertising expenses that would otherwise be required to get similar customer information.

Q. What type of fee is being proposed in Case 14-M-0564, the Sustainable Westchester pilot program?

A. In the joint filing NYSEG and Con Edison made by letter dated April 23, 2015, NYSEG and Con Edison proposed a three-part fee structure. First, a non-refundable administration fee charged to Sustainable Westchester or the municipality when a Utility is asked to provide aggregated data. Second, a combined subscription and data service fee that will be billed by the Utility to the ESCO. Third, there will be a fee to execute any additional requests that may be made to the Utility. The proposed fees will be incurred per customer account.

Q. Have the Companies included any level of fee revenue in its revenue requirement calculations for this rate case filing? If not, why not?

A. At this point, the Companies have not included any anticipated fee revenues in the revenue requirements filed in this case. As noted above, the REV Proceeding continues to evolve, and any certainty with respect to fees will need some time to develop.

Q. Are the Companies proposing a change to the Incremental Meter Charge for Mandatory Hourly Pricing ("MHP") customers?

A. Yes. The Companies are proposing to eliminate the incremental meter charge for electric MHP customers. This charge, approved in the Commission's December 17, 2007 Untitled Order in Case 03-E-0641, was implemented outside of a rate case to recover the more expensive meter costs and installation costs associated with the mandated MHP program. Currently, all MHP customers have the required meter equipment and all associated costs are included in the revenue requirement. Therefore, there is no need to continue to charge the customer separately for these costs.

Q. Are there additional changes NYSEG and RG&E propose to the electric MHP program?

A. Yes. NYSEG proposes the addition of tariff language to manage the number of requests from existing MHP customers with working equipment for new updated meter and telecommunication equipment.

Q. Please explain the rationale for managing MHP customer requested replacements of working equipment.

A. The Companies are replacing failed meter equipment with newer technology. The newer technology eliminates the need for customer provided phone lines. Should there be a significant number of simultaneous customer requests for the newer technology in the absence of an equipment failure, the Companies propose tariff language to manage the requests on a first come first served basis, based on the availability of the equipment.

Q. Are the Companies planning to make any changes to NYSEG's surcharge for Reliability Support Services?

A. In the December 17, 2012 Order in Case 12-E-0400,[6] the Order states that "[w]e agree with MI that the 2008 data proposed by NYSEG for allocating RSS costs to

[6] Case 12-E-0400 - Petition of Cayuga Operating Company, LLC to Mothball Generating Units 1 and 2, Order Deciding Reliability Issues and Addressing Cost allocation and Recovery (Dec. 17, 2012).

the various service classifications should be updated periodically, and accordingly direct NYSEG to update the allocations as appropriate (e.g., as part of NYSEG's next electric rate case)." NYSEG will use the transmission plant allocation factors from this case once it is completed to update its RSS rates.

Q. Are the Companies proposing to introduce any new fees to RG&E's Emergency Demand Response Program ("EDRP") and Day Ahead Demand Response Program ("DADRP")?

A. Yes, RG&E is proposing to require customers participating in the EDRP and DADRP to pay a monthly subscription service fee. The subscription service fee is needed to cover the expenses associated with the meter communication equipment, the software required to determine the customer base line, and for the administration of the curtailment program.

Q. What will the impact of the EDRP and DADRP monthly subscription service fees be on RG&E customers?

A. The fee for each program is approximately $40 per month, which is consistent with the fee charged to NYSEG EDRP and DADRP customers. The implementation of this fee will also achieve consistency among similar programs at RG&E and NYSEG.

DIRECT TESTIMONY OF REVENUE ALLOCATION, RATE DESIGN, ECONOMIC DEVELOPMENT, AND TARIFF PANEL

XIV. ENERGY SMART COMMUNITY

Q. Are there opportunities to test new rate designs in the Companies' proposed Energy Smart Community Project?

A. Yes. The REV Panel describes the ESC Project, which will target 10,000 to 15,000 customers in the Ithaca, New York region. The Project will provide the Companies an opportunity to test new technologies and operational capabilities. The technologies will include an Advanced Metering Infrastructure ("AMI"), a communications network and a customer data portal which will be the platform to provide customers with information to better manage their energy usage. AMI will provide necessary infrastructure to test new rate designs and pricing structures. Testing such rate designs and pricing structures on a smaller scale can provide valuable guidance and "lessons learned" that can be used to determine how best to expand such pricing to more customers as AMI is implemented across the Companies' territory in the future.

Q. What types of customers would participate in the ESC Project?

A. Based on an initial review of customers in the City and Town of Ithaca, the majority of customers would be residential and small commercial customers.

Q. What kind of rate design and pricing structures are envisioned for the ESC Project, particularly for the target population?

A. Options can be tested for both delivery and supply service. For delivery, since most of the customers are residential and small commercial, a rate design that incorporates an hourly demand charge in the delivery rate structure for these customer classes would be appropriate.

Q. Why would demand charges be appropriate for residential and small commercial customers?

A. From a cost of service perspective, recovering costs on a demand basis would better align costs with rates. As stated in the testimony of Company Witness Nieto, the electric delivery system consists of three major components:

1) Customer-related costs that vary with the number of customers on the system;
2) Design demand-related costs associated with local distribution facilities that are sized based on the maximum expected loads of the customer using them over the life of the equipment; and
3) Upstream line and substation costs that are expanded as system peak load grows.

Thus, the delivery system cost is a function of the number of customers on the system and the anticipated demands those customers place on the system. The costs do not vary with the amount of usage (kWh) customers place on the system. Ideally, the collection of these costs should occur through fixed customer charges ($/customer) and some measure of demand ($/kW), not volumetric ($/kWh) charges. Currently, the delivery rate structures for the residential and small commercial classes consist of a fixed monthly charge and a per kWh charge. Demand charges have been a part of the rate structures for commercial and industrial customers for many years; however they have not been present in residential and small commercial rate structures because the required metering to bill on a demand basis has not been in place. AMI makes demand billing possible for the smaller customer classes.

Q. Given that residential and small business customers have never been exposed to demand charges, will it be mandatory for such customers participating in the ESC Project to be served under a delivery structure with a demand rate?

A. There will be a need to inform and educate customers and employees on the new pricing structure and the opportunity it provides in managing their electric bills and that will likely take some time. Until customers can enhance their knowledge on the concept of demand charges, the Companies propose to make the rate optional at the outset of AMI implementation for the ESC Project. All customers that choose the demand rate will also be subject to the Revenue Decoupling Mechanism.

Q. What pricing options are envisioned for supply in the ESC Project?

A. In the Order Instituting Proceeding ("Instituting Order") in the REV Proceeding (at page 58), the Commission stated that rates should provide dynamic price signals that reflect system needs and costs over short and long term horizons. The Instituting Order also noted (at page 40) that little evidence existed on ESCO's offering voluntary dynamic pricing programs to small commercial or residential customers. Currently, average class profiles are used to plan for the energy needs of customers. Part of the problem on the absence of dynamic pricing programs to date could be the lack of detailed customer usage information that would be used to plan for dynamic electric supply options. With the implementation of AMI, dynamic pricing options can become more of a reality. Customer-specific data would be available to allow the development of various dynamic pricing programs for customers to make informed decisions on their usage.

Q. What kind of dynamic pricing programs could be proposed?

A. There are many analyses and studies in the industry that have focused on dynamic pricing programs. Some examples include:

1) Time-of-Use – Prices vary by certain time of days (e.g., weekday, weekend), month or season. A TOU supply option is available today to residential customers who purchase their supply from NYSEG and RG&E.
2) Critical Peak Pricing ("CPP") –Under CPP, participating customers would pay higher prices when the power system experienced very high cost or critical conditions. Typically, CPP programs limit critical events to very few hours per year.
3) Peak Time Rebate ("PTR") –With a PTR, customers would receive a rebate for usage reductions during critical peak periods. The establishment of a baseline load from which reductions can be measured would be required with a PTR.
4) Day-Ahead Hourly ("DAH") Pricing – Under a DAH program, customers' rates would vary based on hourly variations in the wholesale electricity market. The prices would be set based on actual day-ahead prices. DAH

pricing is currently mandatory for large customers (i.e., greater than 300 kW per month) who purchase their supply from NYSEG or RG&E.

Given the range of possibilities on dynamic pricing options that could be made available to all customers in the ESC Project, the Companies propose a collaborative with ESCOs and other interested parties to determine priorities and work out the intricacies associated with potential dynamic pricing so that opportunities can be maximized for all participants.

Q. When would the Companies propose the collaborative begin?

A. Upon approval of the ESC Project by the Commission, the Companies propose that a collaborative begin in 2016, after an order is issued in this proceeding.

XV. TARIFF CONSISTENCY

Q. Have the Companies been trying to make their tariff schedules more consistent?

A. Yes, Appendix S of the 2010 JP states that "[t]he Companies will meet with Staff after the Commission's Order in this proceeding to determine whether there are instances where electric and gas service classifications can be made more consistent between NYSEG and RG&E." The Commission approved tariff filings submitted by the Companies in 2012 and 2013 to specifically address consistencies in tariff language.

Q. What are the benefits of standardizing the tariff language between the Companies?

A. The Companies are able to provide consistent information to ESCOs, developers, and other external parties.

Q. Are the Companies proposing additional consistency changes to the tariffs?

A. Yes, the Companies have identified the remaining provisions in their tariff schedules where consistency is still to be achieved. The Companies are including a detailed comparison of these changes in Exhibit __ (RARDEDT-31) for all electric and gas tariff schedules. Additionally, the Companies will be making tariff modifications necessary to carry out the proposals made by the Companies in this filing.

Q. Are there electric-only provisions that the Companies are filing to make more consistent?

A. Yes. The Companies have identified remaining provisions in their electric tariff schedules. For example, the Companies are proposing changes to the following provisions: Extension of Company Facilities, Service Connections, and Temporary Service to achieve consistency. However, the Companies are not proposing anything further to achieve additional consistency for Street Lighting.

Q. Are customers impacted by these changes to the electric tariffs?

A. Customers that request temporary service at RG&E may be impacted by the changes to the extent the service becomes permanent. The tariff previously provided that the Company would provide a refund of the amount paid for service less an applicable charge for permanent service if the characteristics become a residential dwelling unit. The Companies are proposing to remove the language that requires RG&E to provide these refunds. The Company has not provided refunds to customers that have requested temporary service and should not be required to track and provide such refunds.

Q. Are there gas-only provisions that the Companies are filing to make more consistent?

A. Yes. The Companies have identified and are proposing tariff revisions to provisions in their gas tariff schedules. For example, the Companies are proposing revisions to Charges for Additional Facilities and Rules Relating to the Installation of Mains, Services, Extensions, etc. that will support Gas Expansion opportunities and make the process the same for both Companies. More specifically, similar to RG&E, the Companies are proposing to change the NYSEG tariff to provide the same main extension allowances to non-heating customers as are provided to heating customers. The non-heating customer will receive up to 100 feet of main and up to 100 feet of service.

Q. Why is NYSEG proposing this change for non-heating customers?

A. NYSEG has reviewed recent history of customers coded as non-heating and learned that many "non-heating" customers have installed heating appliances without informing NYSEG of this change. Additionally, NYSEG is encouraging customers to convert to natural gas and pursuant to the current tariff provision; non-heating customers pay more for the installation of natural gas service, which can be a deterrent.

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Q. Are there other impacts to customers resulting from the proposed revisions to the gas tariffs?

A. Yes. The Companies are also proposing to add language to the NYSEG tariffs under Customer Charges for Additional Facilities that would provide a credit for two years adjusted gas revenue if the customer makes a cash payment upfront rather than paying a surcharge over 10 years. RG&E currently provides this credit to customers when evaluating a surcharge versus up-front payment.

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

A. Yes.