

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
Rochester Gas and Electric Corporation
for Electric Service

Case 09-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 09-G- _____

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

**Chester W. Luce
Brian R. Maloney
Michael J. Purtell
Dean E. Schroeder**

September 17, 2009

DELIVERIES AND REVENUE PANEL

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

3 A. We are Chester W. Luce, Brian R. Maloney, Michael J. Purtell and Dean E.
4 Schroeder.

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

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

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

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

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

4 A. No, I have not previously testified in other proceedings before the PSC or any
5 other state or federal regulatory agency or court. However, I sponsored testimony
6 in Case 09-E-0085.

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

8 A. My title is Lead Analyst in RG&E's Rates and Regulatory Economics
9 Department. My business address is RG&E, 89 East Avenue, Rochester, New
10 York 14649.

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

12 A. I graduated from the Rochester Institute of Technology with a Bachelor of
13 Science degree in Business Administration. I joined RG&E in 2000 as an Analyst
14 in the Corporate Accounting Department, and was transferred as a Lead Analyst
15 to the Rates and Regulatory Economics Department in 2004. One of my primary
16 responsibilities since joining the Company has been the forecasting and analyzing
17 of gas revenues and margins. Prior to joining RG&E, I held financial analysis
18 positions in the banking and telecommunications industries.

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

21 A. I have testified before the Commission in Cases 02-G-0199 and 03-G-0766. I
22 also sponsored testimony in Case 09-G-0085.

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

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

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

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

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

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

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

2 A. My title is Lead Analyst in RG&E's Rate and Regulatory Economics Department.

3 My business address is RG&E, 89 East Avenue, Rochester, New York 14649.

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

5 A. I received an Associate in Applied Science Degree in Marketing from Monroe

6 Community College in 1971. I have been employed by RG&E for thirty-six

7 years. After joining RG&E in 1973, I was assigned to the Property Records

8 Department in 1975. I then was assigned to the Financial Analysis Department in

9 June 1980 as an accountant. RG&E's Financial Analysis section merged with the

10 Company's Regulatory Affairs Department in 1994, when I was promoted to

11 Statistician, Regulatory Analyst. I assumed my current responsibilities in 1996,

12 and then was transferred to the Perform Financial Services Department in June

13 2000. In 2004, I was transferred to the Rate and Regulatory Economics

14 Department.

15 Q. Have you previously testified in other proceedings before the Commission or any

16 other state or federal regulatory agency or court?

17 A. Yes. I have testified in Cases 28426-29428, 29675-76, 95-E-0673, 95-G-0674,

18 02-E-0198 and 03- E-0765. I also sponsored testimony in Case 09-E-0084.

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

20 A. We address four topics in our testimony. First, we will present RG&E's forecast

21 of monthly electric deliveries and customers for the period July 2009 through

22 August 2011. The second topic of our testimony is electric revenues.

23 Specifically, the Panel will present the electric delivery revenue forecast for the

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

8 Specifically, we will present the natural gas delivery revenue forecast for the
9 period July 2009 through August 2011 based on currently effective delivery rates,
10 establish a link between the Test Year and the Rate Year (i.e., the twelve months
11 ending August 31, 2011) and explain the revenue adjustments reflected in Exhibit
12 ____ (RGEDRP-6), Schedule A.

13 Q. Can you please summarize how the current economic conditions have affected
14 RG&E's deliveries?

15 A. The current recession has had a significant negative impact on RG&E's electric
16 deliveries. Electric deliveries, weather normalized, for the period January 2009
17 through June 2009 are down 71,000 MWh (a 3.5% decrease) from the same
18 period in 2008 (and 2008 deliveries were down 217,000 MWh from 2007 – a
19 2.9% decrease). This decline is expected to continue as the economic outlook for
20 Rochester is considered grim through the Rate Year. Based on Moody's
21 Economy.com's Total Rochester Real GRP projection, the Rochester economy
22 will not return to 2008 levels until at least 2012. Additionally, according to
23 Moody's Economy.com, in recent years Rochester has been experiencing a

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1 decline in the number of Households and this reduction is expected to continue at
2 least through the Rate Year.

3 Q. Is this Panel sponsoring any exhibits?

4 A. Yes. RG&E's electric customer and delivery forecasts are illustrated in Exhibit __
5 (RGEDRP-1). The deliveries and customer schedules include both actual and
6 weather normalized historical billed delivery data from January 1, 2008 through
7 June 2009 and forecasted data from July 2009 through August 2011. Exhibit __
8 (RGEDRP-2), shows the electric model specifications and the results of RG&E's
9 validation tests of the models used to develop the forecasts of monthly electric
10 deliveries and customers. Exhibit __ (RGEDRP-3) presents historical electric
11 delivery revenue data for 2006, 2007, 2008, January 2009 through June 2009, and
12 the Test Year (i.e., twelve months ending June 2009) and projected electric
13 delivery revenue data through August 2011 at current rates. RG&E's natural gas
14 customer and delivery forecasts are illustrated in Exhibit __ (RGEDRP-4). The
15 deliveries and customer schedules include both actual and weather normalized
16 historical delivery data from January 1, 2008 through June 2009 and forecasted
17 data through August 2011. Exhibit __ (RGEDRP-5), shows the natural gas model
18 specifications and the results of RG&E's validation tests of the models used to
19 develop the forecasts of monthly gas deliveries and customers. Exhibit __
20 (RGEDRP-6) presents historical gas delivery revenue data for 2006, 2007, 2008,
21 January 2009 through June 2009, and the Test Year (i.e., twelve months ending
22 June 30, 2009), and projected natural gas delivery revenue data through August

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1 2011 at current rates. Exhibit __ (RGEDRP-7) contains the Panel's workpapers.

2 A copy of the workpapers was provided to Department of Public Service Staff.

3 **ELECTRIC DELIVERIES AND CUSTOMERS**

4 **Electric Deliveries Forecast**

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

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

10 Q. What is econometric modeling?

11 A. Econometric modeling applies statistical techniques, such as linear regression, to
12 estimate the relationship between certain explanatory, or independent, variables
13 and the dependent variable, which in this case uses monthly data. An
14 econometric model, also known as a linear regression model, is an estimate of a
15 best-fit line between one dependent variable and one or more explanatory
16 variables. The term "best-fit" refers to the line with the lowest sum of squared
17 errors.

18 Q. How did you develop the econometric models?

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

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1 Q. Has RG&E employed such a methodology for electric deliveries forecasting in
2 previous rate cases?

3 A. Yes. RG&E most recently used econometric modeling for electric deliveries
4 forecasting in Case 02-G-0198.

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

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

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

10 A. Our general underlying assumption is that monthly electric deliveries are a
11 function of these types of variables.

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

13 A. With one exception, monthly historical data from January 1980 through June
14 2009 were used for each of the econometric models. This amount of history
15 allowed for sufficient degrees of freedom and efficient estimates of econometric
16 model coefficients. Monthly data also were used to improve model stability and
17 to better model seasonality. For the Borderline and Company Use classes, the last
18 12 months of actual usage were used as the forecast.

19 Q. Please describe the category of economic variables.

20 A. This category represents the fiscal health of the economy in the Rochester
21 Metropolitan Statistical Area ("MSA"). Among the economic variables used by
22 RG&E are variables for Income, Manufacturing and Non-Manufacturing Gross
23 Domestic Product ("GDP") and Manufacturing Employment.

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

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

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

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

11 Q. What is the release date of the economic forecasts provided by Moody's
12 Economy.com that were used to prepare the Company's electric deliveries
13 forecasts presented in this testimony?

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

15 Q. What are price variables?

16 A. Price variables are electric prices. The electric prices used by this Panel are the
17 actual average retail sales prices (sales revenues divided by sales units) for each
18 customer class during the period January 1980 through June 2009 adjusted by
19 specific price indices or deflators. In particular, electric prices are deflated by the
20 Consumer Price Index for the residential class, adjusted by the GDP implicit price
21 deflator for the commercial and municipal classes, and adjusted by the Producer
22 Price Index for the industrial class.

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1 Q. What are weather variables?

2 A. Weather variables measure monthly heating and cooling degree days and
3 variations from normal monthly heating and cooling degree days. The term
4 "normal degree days" is defined as a rolling 10-year normal (1999-2008) of
5 degree days ending with the last complete calendar year of actual data. Using a
6 10-year normal weather is consistent with the recent switch by the U.S.
7 Department of Energy's Energy Information Administration ("EIA") from a 30-
8 year to a 10-year average to define normal weather for forecasting purposes and
9 the Commission's June 22, 2009 Order Adopting Recommended Decision with
10 Modifications in Cases 08-E-0887 and 08-G-0888.

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

12 A. The Rochester station of the National Weather Service provided the weather data.

13 Q. What are binary variables?

14 A. Binary variables take a value of "1" when a condition is present and assume a
15 value of "0" when the condition is not present. For example, a variable called
16 "January" takes a value of "1" in January and "0" in any other month. Binary
17 variables are merely shape variables and do not represent any underlying trends.

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

19 A. Yes, a specific year-month binary variable was used for the month of November
20 2004 in the municipal model to correct for an anomalous data point.

21 Additionally, multiple specific year-month binary variables were used in the street
22 lighting model to correct for apparent billing issues.

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1 Q. What demographic variable did the Panel use?

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

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

5 A. We used variables representing number of residential customers, Real Disposable
6 Personal Income, Real Residential Price, Billing month Heating and Cooling
7 Degree Day variations from normal weather, Monthly binary variables and the
8 number of billing days in the month. Our dataset consisted of monthly historical
9 data from January 1980 through June 2009.

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

12 A. The average annualized growth rate for residential billed deliveries between the
13 Test Year (ending June 2009), weather normalized, and the Rate Year (ending
14 August 2011) is -0.52% .

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

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

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

22 A. The database contained variables for the Real Rochester Non-Manufacturing
23 Gross Regional Product ("GRP"), Real Commercial Price, Billing month Heating

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1 and Cooling Degree Day variations from normal weather, Monthly binary
2 variables and the number of billing days in the month. The Panel's dataset
3 consisted of monthly historical data from January 1980 through June 2009, for the
4 reasons provided earlier in our testimony.

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

6 A. The average annualized growth rate between the Test Year (ending June 2009),
7 weather normalized, and the Rate Year (ending August 2011) is -0.39%

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

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

11 Q. What particular variables did you include in your historical monthly database to
12 develop the total electric delivery forecast for the industrial class?

13 A. The database consisted of variables for Rochester Manufacturing Employment,
14 Rochester Real Manufacturing GRP, Real Industrial Price, Billing month Cooling
15 Degree Day variations from normal weather, Monthly binary variables and the
16 number of billing days in the month.

17 Q. Were there any out-of-model adjustments made to the Industrial class delivery
18 forecasts?

19 A. Yes, there were two out-of-model adjustments made to the RG&E Industrial class
20 delivery forecasts.

21 Q. Please explain these two out-of-model adjustments.

22 A. There are two customers whose loads will be significantly reduced during the
23 forecast period due to those customers using their own generation facilities. The

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1 first of the two industrial customers was an RG&E delivery customer until June
2 2009. It now deals directly with the NYISO. This customer had averaged
3 between 20,000 MWH and 30,000 MWH per year and its significant usage is
4 embedded in the industrial deliveries history. As of July 2009, the customer's
5 RG&E delivery load dropped to zero MWH. The second customer is an RG&E
6 industrial standby customer who currently takes RG&E delivery service but plans
7 to use its own co-generation for the majority of its electric needs beginning
8 January 2010. Since both of these customer's delivery loads are embedded in the
9 industrial delivery load history and their significant load reductions would not be
10 captured by the econometric models out-of-model adjustments are warranted.

11 Q. How were the out-of-model adjustments calculated?

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

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

17 A. The average annualized growth rate between the Test Year (ending June 2009),
18 weather normalized, and the Rate Year (ending August 2011) is -3.23%.

19 Q. How did the Panel allocate deliveries once you determined the industrial class
20 delivery forecast?

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

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1 Q. What specific explanatory variables did you use to develop the total electric
2 deliveries forecast for the municipal class?

3 A. We used the following variables: number of residential customers, Real
4 Municipal Price, Billing month Heating and Cooling Degree Day variations from
5 normal weather and Monthly binary variables. For the reasons described earlier,
6 the Panel's dataset consisted of monthly historical data from January 1980 through
7 June 2009.

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

9 A. The basis of the assumption is that a municipal customer, which includes town/
10 village offices and schools, will grow or decline based on the population they
11 serve. Their clientele is comprised, for the most part, of RG&E's residential
12 customers and, therefore, it is appropriate to include RG&E residential customers
13 as an explanatory variable for municipal class delivery growth.

14 Q. What is the municipal class delivery growth over the forecast period?

15 A. The average annualized growth rate between the Test Year (ending June 2009),
16 weather normalized, and the Rate Year (ending August 2011) is 2.23% .

17 Q. What was the next step after determining the municipal class delivery forecast?

18 A. The deliveries were then allocated among the municipal SCs based on historical
19 monthly delivery distributions for revenue calculations.

20 Q. Please describe the explanatory variables that the Panel used to develop the total
21 electric deliveries forecast for the street lighting and area lighting classes.

22 A. The street lighting and area lighting total delivery forecasts are based upon
23 econometric models that utilize the average monthly burning hours, outlined in

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1 the Company's tariff, as the main explanatory variable. Additionally, a generic
2 trend variable and monthly binary variables were used in the model specifications.

3 Q. What are the growth rates over the forecast period for the street lighting and area
4 lighting classes?

5 A. The average annualized growth rate for the street lighting class between the Test
6 Year (ending June 2009), weather normalized, and the Rate Year (ending August
7 2011) is -3.08%. The average annualized growth rate for the area lighting class
8 between the Test Year (ending June 2009), weather normalized, and the Rate
9 Year (ending August 2011) is 1.11%.

10 Q. What methodology did the Panel use to develop the total electric deliveries
11 forecast for RG&E's Borderline and Company Use deliveries?

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

14 Q. Please summarize the total electric billed deliveries forecast for the RG&E service
15 territory.

16 A. Based on the forecasts that we have described, RG&E expects that the overall
17 electric deliveries volume will decrease, on average, by 0.83% annualized
18 between the Test Year (ending June 2009), weather normalized, and the Rate
19 Year (ending August 2011). The electric deliveries forecast is illustrated in
20 Exhibit __ (RGEDRP-1). Historical actual and weather normalized deliveries
21 from January 2008 through June 2009 and forecasted deliveries from July 2009
22 through August 2011 are presented in this exhibit. This electric delivery forecast
23 is based heavily on economic variables, and the forecast may be subject to update

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1 to reflect changes in economic conditions, especially given the extreme
2 uncertainty in the current economy.

Electric Customer Forecast

3
4 Q. Please describe the development of the electric customer forecast for the
5 residential customer class.

6 A. The number of residential customers is forecasted with an econometric model that
7 uses Moody's Economy.com's forecast of the number of households in the
8 Rochester MSA as the main explanatory variable.

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

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

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

17 A. The average annualized growth rate between the Test Year (ending June 2009)
18 and the Rate Year (ending August 2011) is 0.02%.

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

22 A. We developed those forecasts using exponential smoothing models for each
23 customer class.

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

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

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

8 A. The average annualized growth rate between the Test Year (ending June 2009)
9 and the Rate Year (ending August 2011) for the commercial class is 0.88%. The
10 average annualized growth rate between the Test Year (ending June 2009) and the
11 Rate Year (ending August 2011) for the municipal class is 0.81%. The average
12 annualized growth rate between the Test Year (ending June 2009) and the Rate
13 Year (ending August 2011) for the industrial class is -2.05%. The average
14 annualized growth rate between the Test Year (ending June 2009) and the Rate
15 Year (ending August 2011) for the street lighting class is 0.14%. The average
16 annualized growth rate between the Test Year (ending June 2009) and the Rate
17 Year (ending August 2011) for the area lighting class is -0.25%.

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

19 A. The electric customer forecast is illustrated in Exhibit __ (RGEDRP-1), Schedule
20 B. It displays the actual number of customers from January 2008 through June
21 2009 and the forecasted number of customers from July 2009 through August
22 2011. Based on the forecasts we have described, RG&E expects that overall

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1 electric customers will increase, on average, by 0.09% annually between the Test
2 Year (ending June 2009) and the Rate Year (ending August 2011).

Model Validation

3
4 Q. How did the Panel validate the models used to develop the forecasts of monthly
5 electric deliveries and customers?

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

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

21 A. The test results and model specifications are shown in Exhibit __ (RGEDRP-2).
22 They establish that the econometric models used by RG&E for electric
23 forecasting have very strong summary statistics and fit the datasets well.

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ELECTRIC DELIVERY REVENUES

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

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

Q. What is the first step?

A. The first step of the electric revenue forecast is to incorporate our forecasted deliveries and electric customers by SC, including customer class, by month, into a revenue model. The monthly forecasted kilowatt hour ("kWh") sales are allocated to on-peak and off-peak for applicable SCs based on historical distributions. Demand ("kW") was developed looking at historical kW by SC and allocating kW units to applicable forecast SCs. Separately, the monthly kWh, kilowatt, and SC customer counts (i.e., collectively, the billing determinants) are forecasted by month for each SC, for all customers.

Q. Please describe the second step.

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

Q. What does the third step include?

A. The forecasted deliveries, where applicable are multiplied by the forecasted System Benefits Charge ("SBC") Surcharge, Energy Efficiency Portfolio

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1 Standards ("EEPS") Surcharge, Renewable Portfolio Standards ("RPS")
2 Surcharge, and the Temporary State Assessment Surcharge ("TSAS") .

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

4 A. The resulting tariff revenue amounts are then multiplied by the SC revenue-tax
5 percentages supplied by the Revenue Requirements Panel to derive the total
6 revenue amounts, per month, per SC. These revenues are included in the line
7 item labeled "Revenue Taxes."

8 Q. Please list and describe briefly the SCs that are used by the Company to price the
9 delivery revenues.

10 A. The SCs are as follows:

- 11 PSC 19 Service Classifications
- 12 SC#1 Residential Service
- 13 SC#2 General Service – Small Use
- 14 SC#3 General Service – 100 kW minimum
- 15 SC#4 Residential Service – Time of Use
- 16 SC#6 Area Lighting
- 17 SC#7 General Service – kW Minimum
- 18 SC#8 Large General Service – Time of Use
- 19 Transmission
- 20 Subtransmission – Industrial
- 21 Subtransmission – Commercial
- 22 Subtransmission - Secondary
- 23 Primary
- 24 Secondary
- 25 SC#9 General Service Time of Use
- 26 SC#14 Standby

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- 28 PSC 18 Service Classifications
- 29 SC #1 Street Lighting Service
- 30 SC#2 Street Lighting Service – Customer Owned Equipment
- 31 SC#3 Traffic Signal Service

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1 Q. Please describe Exhibit __ (RGEDRP-3).

2 A. Exhibit __ (RGEDRP-3), Schedule A, page 1 of 7, shows 2006 delivery revenues
3 per month. Page 2 of 7 shows 2007 and page 3 of 7 shows 2008 revenues per
4 month. Schedule A, page 4 of 7, shows the actual revenues for January 2009
5 through June 2009. Schedule A, page 5 of 7, shows the actual revenues for the
6 Test Year, the 12 months ended June 2009. Schedule A, page 6 of 7, shows
7 forecasted revenues for the Rate Year, the 12 months ended August 2011.
8 Schedule A, page 7 of 7, shows a summary of the Test Year and the Rate Year.

9 Q. Please describe the Test Year revenues as shown on Exhibit __ (RGEDRP-3),
10 Schedule A, page 5 of 7.

11 A. The Test Year revenues include revenues for the period July 2008 through June
12 2009. These revenues include Net Base Delivery Charges, SBC Surcharge, EEPS
13 Surcharge, RPS Surcharge, Retail Access Surcharge ("RAS"), Retail Access
14 Credit ("RAC"), Borderline and Revenue Taxes.

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

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

19 Q. Please describe the RAC and the RAS.

20 A. The RAC is a discount that is applied to the customer bills for customers that
21 purchase their supply from an energy services company ("ESCO"). If the
22 customer is an ESCO Price Option customer, they receive a \$(.004) credit and if
23 they are an ESCO Option with Supply Adjustment customer, they receive a

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1 \$(.005) credit off their delivery bill. The RAS is applied to all RG&E customers
2 to recoup the non-avoidable portion of the RAC costs.

3 Q. What does Revenue Taxes represent?

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

7 Q. Please describe the line item labeled Borderline.

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

14 Q. Does the Rate Year include similar revenues as the Test Year?

15 A. Yes, with three exceptions. The EEPS Surcharge went into effect October 1,
16 2008 and, thus, is not included in the first three months of the Test Year revenues.

17 Q. What is the second exception?

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

19 Q. What is the third exception?

20 A. The Company is introducing a Low Income program that will reduce revenues in
21 the Rate Year. The Customer Service Panel addresses the Low Income program.

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

3 A. Billing determinants for Flex Contract customers are included in the otherwise
4 applicable service class ("OASC") billing determinants. The billing determinants
5 are then priced out at the current tariff delivery rates as described in Step 2 above.
6 Discounts for Flex customers are included in the Economic Development
7 Discounts total.

8 Q. Are there any NYPA programs included in the Rate Year?

9 A. No. The Power for Jobs ("PFJ") program is scheduled to end May 2010, as
10 amended by Article 6 of Section 189 of the Economic Development Law.
11 Therefore, NYPA PFJ was not included in the Rate Year revenue forecast.

12 Q. Please explain the total revenue adjustments in Exhibit __ (RGEDRP-3),
13 Schedule A, page 7 of 7, for the Test Year compared with the forecasted revenues
14 for the Rate Year.

15 A. The total adjustment between the Test Year and the Rate Year is an increase of
16 \$18,840,000, which is attributed to the following:

- 17 a) A decrease in Gross Base Delivery Charges of \$7,688,000;
- 18 b) A decrease of \$6,555,000 to incorporate proposed Low Income Discounts
19 as testified to by the Customer Service Panel;
- 20 c) An increase of \$5,515,000 over the Test Year to reflect a change in
21 Economic Development Discounts;

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- 1 d) A decrease of \$1,475,000 for Transfer of Fixed NBC Costs to Delivery
2 based on a reduction in deliveries. The Revenue Requirements Panel
3 testifies on this item.
- 4 e) An increase in SBC of \$361,000. This adjustment is a decrease in the
5 volume and an increase to the rate. The SBC rate in the Test Year was
6 .000611 from July 2008 through January 2009. Starting February 1, 2009,
7 the rate changed to .000706 which is also the rate that is being used in the
8 Rate Year revenues.
- 9 f) An increase of \$10,018,000 for the EEPS Surcharge. As discussed above,
10 the EEPS Surcharge went into effect in October 2008 and therefore was
11 not in the Test Year revenues for the first three months. In addition the
12 EEPS Surcharge in the Test Year was .001458 from October 2008 to
13 February 2009. In February 2009 it increased to .001532. The Rate Year
14 rate was increased to .00244 to collect for the anticipated expense level.
15 The additional revenue due to the increase of the surcharge rate is
16 \$6,623,000 of the total \$10,018,000 increase over the Test Year.
- 17 g) An increase in RPS Surcharge of \$402,000. Like the SBC, this adjustment
18 is a decrease in the volume and an increase in the rate. The RPS
19 Surcharge rate in the Test Year was .000568 from July 2008 to September
20 2008. In October, the rate increased to .000788 and remains that until the
21 end of the Test Year and Rate Year.
- 22 h) A decrease in RAS of \$13,359,000. This surcharge has been eliminated in
23 the Rate Year.

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- 1 i) An introduction of Merchant Function Charge – Delivery revenue, which
- 2 is discussed by the Revenue Requirements Panel and the Revenue
- 3 Allocation and Rate Design Panel.
- 4 j) An increase of \$15,395,000 to RAC due to eliminating this surcharge in
- 5 the Rate Year.
- 6 k) An increase of \$14,298,000 for the TSAS Surcharge. As previously
- 7 explained, this surcharge went into effect after the Test Year.
- 8 l) An increase of \$1,928,000 to Revenue Taxes. The Test Year includes a
- 9 negative Transition Surcharge which when applied to delivery revenues,
- 10 lowered the total delivery revenues which the revenue tax rate was
- 11 applied. As the Rate Year does not address transition charges, revenues
- 12 that the revenue tax rate would be applied to would be higher.

13 **NATURAL GAS DELIVERIES, CUSTOMERS AND**

14 **TRANSPORTATION FORECAST**

15 **Natural Gas Deliveries Forecast**

- 16 Q. What methodology did the Panel use to forecast monthly natural gas billed
- 17 deliveries?
- 18 A. Residential, industrial, commercial and municipal sales forecast were developed
- 19 using econometric models. For the residential class, we estimated average use per
- 20 customer and for the industrial, commercial, municipal and SC-3 classes our
- 21 models were based on total billed deliveries.

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

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

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

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

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

10 A. Yes, with two differences.

11 Q. What is the first difference?

12 A. We did not use a demographic variable for the residential use per customer model.
13 For the residential class, we used a residential use per customer model. The
14 forecast number of residential customers is multiplied by a forecasted residential
15 average use per customer to determine the forecasted monthly residential billed
16 deliveries forecast.

17 Q. What is the second difference?

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

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1 Q. Please describe the natural gas weather normalization methodology used by the
2 Panel.

3 A. We used billing month weather for the residential, commercial, municipal and
4 industrial classes and calendar month weather for the SC-3 class. The first step is
5 to take the actual deliveries for each year and subtract the base load deliveries.
6 The term "base load" is defined as the average of the non-weather related
7 deliveries during the two months having the lowest level of gas consumption
8 observed during the calendar year. The second step is to divide the remaining
9 (weather related) deliveries load by the actual billing month or calendar month
10 heating degree days. This yields the actual weather response per heating degree
11 day for the billing month and calendar month. The third step is to multiply the
12 quotient by the normal billing month or calendar month heating degree days. The
13 term "normal degree days" in this context is defined as a 10-year rolling average
14 (1999-2008) of degree days for any given calendar day as obtained from NOAA.
15 The last step is to add the base load that was originally removed.

16 Q. Please explain the residential sales forecasting model.

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

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

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

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

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

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

11 A. The average annualized growth rate for the residential class between the Test
12 Year (ending June 2009), weather normalized, and the Rate Year (ending August
13 2011) is 1.10%.

14 Q. How were the commercial, industrial, municipal and SC-3 forecasts developed?

15 A. We used econometric modeling that relates to monthly deliveries, economic and
16 price related drivers.

17 Q. What are SC-3 customers?

18 A. SC-3 customers are large daily-metered, transportation-only customers taking
19 service through marketers that are billed on a calendar month basis.

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

22 A. The database for the weather-normalized commercial class consisted of the
23 following variables: Real Commercial Price, Real Rochester Non-Manufacturing

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1 GDP, the number of billing days in the month and monthly binary variables. The
2 database for the weather-normalized industrial class consisted of the following
3 variables: Real Rochester Manufacturing GDP, Real Industrial Price, the number
4 of billing days in the month and monthly binary variables. The database for the
5 weather-normalized municipal class consisted of the following variables: Real
6 Municipal Price, number of residential customers, number of billing days in the
7 month and monthly binary variables.

8 Q. Why did the Panel include number of residential customers for the municipal
9 class?

10 A. The basis of the assumption is that a municipal customer, which includes
11 town/village offices and schools, will grow or decline based on the population
12 they serve. Their clientele is comprised, for the most part, of RG&E's residential
13 customers. It is, therefore, appropriate to include number of residential customers
14 as an explanatory variable for municipal class delivery growth.

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

17 A. The average annualized growth rates between the Test Year (ending June 2009),
18 weather normalized, compared to the Rate Year (ending August 2011) are -0.83%
19 for the commercial class, -8.61% for the industrial class and -0.42% for the
20 municipal class.

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1 Q. What particular variables did the Panel include in your historical monthly
2 database to develop the natural gas delivery forecast for SC-3 class?

3 A. We used the following variables in the SC-3 class database: Rochester
4 Employment and a Real SC-3 Price, a generic trend variable and monthly binary
5 variables.

6 Q. What is the average annualized growth rate for the SC-3 class?

7 A. For the Test Year (ending June 2009) compared to the Rate Year (ending August
8 2011), the weather-normalized average annualized growth rate is -1.28%.

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

10 A. Based on the forecasts that we have described, RG&E expects that the overall
11 natural gas deliveries volume will decrease by -0.10% annualized for the Test
12 Year (ending June 2009), weather normalized deliveries, compared to the Rate
13 Year (ending August 2011). The natural gas deliveries forecast is shown in
14 Exhibit __ (RGEDRP-4), Schedule A. Historical weather normalized deliveries
15 from January 1, 2008 through June 30, 2009 and forecasted deliveries from July
16 1, 2008 through August 2011 are presented in this exhibit. This gas delivery
17 forecast is based heavily on economic variables and the forecast may be subject to
18 update to reflect changes in economic conditions, especially given the uncertainty
19 in the current economy.

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Natural Gas Customer Forecast

- 1
- 2 Q. How did the Panel develop the natural gas customer forecast for the residential
- 3 customer class?
- 4 A. The number of residential customers is forecasted with an econometric model that
- 5 uses Moody's Economy.com's forecast of the number of households in the
- 6 Rochester MSA as the main explanatory variable. The R-squared statistic on this
- 7 model is equal to almost 1, which means that, on average, the model explains
- 8 almost 100% of the variation in residential customers. In addition, the model
- 9 produces an extremely low MAPE of 0.06%.
- 10 Q. What is the release date of the forecasts provided by Moody's Economy.com that
- 11 were used to prepare the Company's gas customer forecasts?
- 12 A. The forecasts from Moody's Economy.com were released in August 2009.
- 13 Q. What is the growth of residential customers over the Rate Year compared to the
- 14 Test Year?
- 15 A. The average annualized growth rate for the Rate Year (ending June 2009)
- 16 compared to the Test Year (ending August 2011) is 0.28%.
- 17 Q. How did the Panel develop the natural gas customer forecast for non-residential
- 18 and municipal customer classes?
- 19 A. We developed the natural gas customer forecast for these classes by applying the
- 20 historical customer data to an exponential smoothing model. An exponential
- 21 smoothing model is a univariate, or one variable, forecasting method that is
- 22 widely used in business forecasting.

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1 Q. What are the growth rates of the commercial, industrial, municipal and SC-3
2 classes over the forecast period compared to the Test Year?

3 A. The average annualized growth rate for the Test Year (ending June 2009)
4 compared to the Rate Year (ending August 2011) for the commercial class is
5 0.70%. The average annualized growth rate for the Test Year compared to the
6 Rate Year for the industrial class is -3.13%. The average annualized growth rate
7 for the Test Year compared to the Rate Year for the Municipal class is 0.30%.
8 The average annualized growth rate for the Test Year compared to the Rate Year
9 for the SC-3 class is -2.25%.

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

11 A. The natural gas customer forecast is illustrated in Exhibit __ (RGEDRP-4),
12 Schedule B. It covers the actual number of customers from January 1, 2008
13 through June 2009 and the forecasted number of customers from July 1, 2009
14 through August 2011. Based on the forecasts we have described, RG&E expects
15 the overall natural gas customers to remain relatively flat for 2009, 2010 and
16 through August 2011.

17 **Transportation Forecast**

18 Q. How did the Panel develop its forecast of the number of natural gas transportation
19 customers?

20 A. This forecast predicts the number of customers in RG&E's service territory, by
21 customer class, obtaining natural gas service from a natural gas provider other
22 than RG&E. We developed our natural gas transportation customer count
23 forecast using an exponential smoothing model for each customer class. This is a

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1 common approach to use when underlying theories of what is being modeled are
2 not well established, such as transportation service forecasting. The
3 transportation customer forecasts were then multiplied by the weather-
4 normalized, average use per transportation customer for the same month in the
5 preceding 12 months for each class. For example, the residential transportation
6 customer forecast for July 2009 was then multiplied by the residential weather-
7 normalized average use per transportation customer from July 2008 to generate
8 the July 2009 residential transportation delivery forecast. The sales, or SC-1, (i.e.,
9 those customers taking natural gas service from RG&E) customer and delivery
10 forecasts were then calculated as the total customer class customer and delivery
11 forecasts less the transportation customer and delivery forecasts for that class.

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

13 A. The forecasted number of customers taking transportation service (i.e., SC-5) is
14 illustrated in Exhibit __ (RGEDRP-4), Schedule B, and the forecasted natural gas
15 usage of those customers is illustrated in Exhibit __ (RGEDRP-4), Schedule A.

Model Validation

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

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

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

2 A. The results and model specifications are shown in Exhibit __ (RGEDRP-5),
3 Schedule A. They establish that the models used for natural gas forecasting have
4 reasonable summary statistics.

5 **GAS DELIVERY REVENUES**

6 Q. Please provide a brief description of RG&E's gas service classes ("SCs").

7 A. RG&E has customers taking service under the following SCs: SC-1 (Firm Sales
8 Service), SC-3 (Large Volume Transportation Service), SC-5 (Small Volume
9 Transportation Service) and SC-7 (Non-Residential Distributed Generation
10 Transportation Service).

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

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

15 Q. What is the first step?

16 A. The first step of the gas delivery revenue forecast is to incorporate the forecasted
17 deliveries and customers by SC and by customer class into the delivery revenue
18 model. The monthly forecasted delivery volumes are allocated to the gas rate
19 blocks established in RG&E's gas tariff based on distributions derived from a
20 block analysis covering the period of July 2008 to June 2009.

21 Q. Please describe the second step.

22 A. The forecasted deliveries by block are then multiplied by the existing volumetric
23 block rates for the respective SCs, and the customer counts are multiplied by the

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1 fixed monthly customer charge for the respective SCs, to derive forecasted base
2 delivery revenues.

3 Q. What is the third step?

4 A. The forecasted deliveries, where applicable, are multiplied by the forecasted
5 Merchant Function Charge ("MFC"), the EEPS Surcharge, the Temporary State
6 Assessment Surcharge ("TSAS") rate, and the R&D Surcharge.

7 Q. What is the fourth step?

8 A. The fourth step is to apply the revenue tax rates to the delivery revenues using the
9 actual revenue tax rates for service type (sales vs. transportation) and customer
10 type (residential vs. non-residential).

11 Q. What is the fifth step in developing the gas delivery revenue forecast?

12 A. The fifth and final step is to adjust the delivery revenues at standard rates for Low
13 Income and Economic Development program discounts.

14 Q. Please describe Exhibit ____ (RGEDRP-6).

15 A. Exhibit ____ (RGEDRP-6), Schedule A, page 1 of 7, shows 2006 delivery
16 revenues per month. Page 2 of 7 shows 2007, page 3 of 7 shows 2008, and page 4
17 of 7 shows January 2009 through June 2009 revenues per month. Schedule A,
18 page 5 of 7, shows the actual revenues for the Test Year, the 12 months ended
19 June 30, 2009. Schedule A, page 6 of 7, shows forecasted revenues for Rate
20 Year, the 12 months ended August 31, 2011. Schedule A, page 7 of 7, shows a
21 summary of the Test Year and the Rate Year.

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

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

6 Q. What do the line items labeled Low Income Discounts and Economic
7 Development Discounts represent in Exhibit __ (RGEDRP-6), Schedule A?

8 A. The line items labeled Low Income Discounts and Economic Development
9 Discounts represent forecasted discounts for these programs, as discussed in the
10 testimony of the Customer Service Panel and the Revenue Requirements Panel.

11 Q. What does the line item labeled Merchant Function Charge represent in Exhibit
12 ____ (RGEDRP-6), Schedule A?

13 A. The line item labeled Merchant Function Charge represents the revenue charged
14 to sales customers to recover the costs associated with the Company's gas
15 merchant activities pursuant to the 2004 Gas Rate Joint Proposal (Case 03-G-
16 0766, Section VII.6).

17 Q. What does the line item labeled EEPS Surcharge represent in Exhibit ____
18 (RGEDRP-6), Schedule A?

19 A. The line item labeled EEPS Surcharge represents the revenue charged to all
20 customers to recover the costs associated with the EEPS programs. The charge is
21 structured so that all forecasted Rate Year EEPS costs are recovered within the
22 Rate Year.

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

3 A. The line item labeled TSAS Surcharge represents the revenue charged to all
4 customers, starting in July 2009, to recover the costs mandated by the
5 Commission's Order Establishing a Temporary Annual Assessment, issued June
6 19, 2009, in Case 09-M-0311.

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

9 A. The line item labeled R&D Surcharge represents the surcharge applied to all
10 deliveries to recover R&D expenditures of \$314,000 per year as provided in
11 Commission Order 99-G-1369.

12 Q. What does the line item labeled Revenue Taxes represent in Exhibit ____
13 (RGEDRP-6), Schedule A?

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

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

18 A. Yes, with three exceptions. The EEPS Surcharge went into effect October 1,
19 2008 and, thus, is not included in the first three months of the Test Year revenue.

20 Q. What is the second exception?

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

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1 Q. What is the third exception?

2 A. The Test Year includes the Merchant Function Charge revenue components that
3 provide recovery for gas supply write-off expenses, gas storage inventory
4 carrying costs, and administrative and procurement costs, whereas the Rate Year
5 includes only the administrative and procurement cost component.

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

8 A. The total delivery revenue decrease of \$842,000 between the Test Year and the
9 Rate Year is primarily attributed to the following:

- 10 1. A decrease of \$813,000 due to lower Gross Base Delivery Charges
11 resulting from the forecasted decrease in deliveries for the Rate Year
12 compared with the Test Year.
- 13 2. A decrease of \$5,542,000 due to a significant expansion in Low Income
14 Discounts for the Rate Year compared with the Test Year.
- 15 3. A decrease of \$98,000 due to growth in Economic Development
16 Discounts for the Rate Year compared with the Test Year.
- 17 4. A decrease of \$9,485,000 due to a reduction in Merchant Function Charge
18 revenues to reflect only administrative and procurement cost, which are
19 included in the delivery revenue requirement in the Rate Year.
- 20 5. An increase of \$2,056,000 due to the Company recapturing the higher
21 level of EEPS expenditures in the Rate Year compared with the Test Year.

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1 6. An increase of \$12,852,000 due to the establishment of a TSAS Surcharge
2 starting in July 2009. As previously explained, this surcharge went into
3 effect after the Test Year.

4 7. An increase of \$180,000 due to higher gross revenue taxes resulting
5 primarily from the establishment of the TSAS Surcharge.

6 Q. Does this conclude the Panel's direct testimony at this time?

7 A. Yes, it does.