

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
ELECTRIC AND NATURAL GAS SUPPLY PANEL**

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

September 17, 2009

ELECTRIC AND NATURAL GAS SUPPLY PANEL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 A. The Panel will summarize RG&E's electric commodity supply strategies, plans
13 and policies and how they mitigate market risk. The Panel will also summarize
14 RG&E's natural gas procurement strategies, plans and policies. Next, the Panel
15 will discuss how RG&E protects its interests – and those of its customers – by
16 intervening in proceedings before the FERC. After that, the Panel will address
17 the recovery of Mendon gate station heater fuel costs. The Panel will then discuss
18 the Gas Cost Incentive Mechanism ("GCIM"). The Panel will also present
19 RG&E's natural gas expense forecast. The Panel will then address the regulatory
20 requirement in the Gas Capacity Planning and Reliability Proceeding (Case 07-G-
21 0299) for a plan for local production. Finally, the Panel will propose changes to
22 RG&E's retail access program, including upgrades to the SmarTRAC software.

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1 Q. Is this Panel sponsoring any exhibits?

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

13 **RG&E'S ELECTRIC SUPPLY PROCUREMENT**
14 **STRATEGIES, PLANS AND POLICIES**

15 Q. What sources of electric supply does RG&E currently have to serve its retail
16 customers?

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

20 Q. Please describe RG&E's company owned generation.

21 A. A listing of RG&E's company owned generation is set forth in Exhibit __
22 (RGEENGSP-1). Following the fossil generation divestiture, the remaining
23 RG&E owned generation will be run-of-river hydropower.

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1 Q. Please describe RG&E's contractual purchases of electric supply.

2 A. A listing of RG&E's contractual purchases of electricity supply is included in
3 Exhibit __ (RGEGENGSP-1). As shown on Exhibit __ (RGEENGSP-1), the
4 majority of RG&E's contractual purchases are fixed price physical purchases for
5 energy and capacity from the New York Power Authority ("NYPA"),
6 Constellation Nuclear, LLC ("Nine Mile 2") and R.E. Ginna Nuclear Power Plant,
7 LLC.

8 Q. Does RG&E purchase electric supply from the NYISO?

9 A. Yes. RG&E meets its remaining physical load requirements, after accounting for
10 load supplied by bilateral physical purchases, by making physical purchases from
11 the NYISO.

12 Q. What happens if RG&E's existing generation and contractual purchase volumes
13 exceed RG&E's actual load requirements?

14 A. In that situation, RG&E sells into the day ahead or spot market.

15 Q. Please explain how RG&E utilizes its three electric supply options.

16 A. Each of the three supply options are utilized differently. RG&E bids its
17 generators into the NYISO at their applicable dispatch price. The revenue
18 received for the generator from the NYISO minus incurred costs is allocated to
19 RG&E delivery customers through the non-bypassable wires charge ("NBC").
20 Virtually all of RG&E's contractual supply is "must take." The value of the
21 capacity and energy supplied by RG&E contractual purchases net of contract
22 costs is allocated to RG&E delivery customers through the NBC. Finally, RG&E
23 uses NYISO purchases or sales to balance the remainder of its resources and load.

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1 Q. How does RG&E mitigate market price volatility for its customers?

2 A. RG&E's customers are allocated a load ratio share of RG&E's owned generation
3 and contractual purchases. Virtually all of RG&E's residential delivery load and
4 75% of non-residential delivery load is hedged by these resources. The difference
5 between the residential and non-residential percentages is RG&E's NYPA hydro
6 allocation, which is solely for the benefit of residential customers. These fixed
7 price hedges mitigate market price volatility.

8 Q. In what way does RG&E's own generation hedge customer market risk?

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

11 Q. How does the loss of company-owned generation or expiration of contracts
12 impact RG&E's hedges?

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

15 Q. Will RG&E's contractual purchases continue through 2014?

16 A. Yes, although certain major contracts will expire prior to that date. In particular,
17 RG&E's contractual purchases of NYPA hydropower are scheduled to terminate
18 at the end of 2009, although it may be extended through 2010. Similarly, the
19 Nine Mile 2 power purchase agreement is scheduled to end in 2011. The R.E.
20 Ginna LLC power purchase agreement ends in 2014.

21 Q. Does RG&E still purchase energy from PURPA qualifying facilities?

22 A. Yes, although RG&E intends to file with FERC for an exemption pursuant to
23 Section 210(m) of the Public Utility Regulatory Policies Act of 1978 ("PURPA"),

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1 as added by Section 1253(a) of the Energy Policy Act of 2005 ("EPAct 2005"), 16
2 U.S.C. § 824a-3(m) (2005),¹ and new Section 292.310 of FERC's regulations, 18
3 C.F.R. § 292.310, which provides an exemption for utilities in the NYISO market
4 to purchase from qualifying facilities down to 20 MW upon approval of the
5 request for exemption. RG&E will ask that the exemption include qualifying
6 facilities down to 1 MW.

7 Q. Why is RG&E seeking this exemption?

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

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

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

15 Q. Does RG&E do any other hedging?

16 A. Not at this time. However, if necessary, as RG&E loses its legacy resources,
17 RG&E will take additional hedges for residential and small commercial/industrial
18 variable rate customers (i.e., mass market) to achieve hedge levels of
19 approximately 60% and 35%, respectively.

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

21 A. The loss of NYPA hydropower would reduce the hedge percentage level for
22 residential customers by approximately 25%.

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

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

3 A. The loss of NYPA hydropower would not impact small commercial/industrial
4 customers.

5 Q. Should RG&E's hedge drop below 60% for residential customers, for any reason,
6 what actions will RG&E undertake?

7 A. Consistent with NYSEG's directive in the Commission's February 26, 2008 Order
8 Establishing Electric Supply Portfolio Standard, Goals, and Reporting
9 Requirements in Case 06-M-1017 ("Hedging Order"), as the hedge percentage
10 drops below 60% for residential, Company-supplied customers, RG&E will take
11 on additional physical or financial electric supply hedges to maintain the
12 approximately 60% hedge level.

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

14 A. The additional physical or financial hedges that RG&E takes to achieve an
15 approximately 60% hedge level for residential, Company-supplied customers
16 would be allocated equally by load share between residential and small
17 commercial/industrial customers. The only difference between residential and
18 small commercial/industrial customers' hedge level would be the residential
19 customers' allocated share of NYPA hydropower, which is provided solely for the
20 benefit of residential customers.

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1 Q. Why does RG&E intend to hedge 60% of load for these residential customers
2 instead of some other percentage?

3 A. The 60% level was supported by the Commission for NYSEG in Case 06-M-
4 1017. It provides reasonable market price exposure for customers. The impact of
5 hedging is reported in quarterly coefficient of variation filings submitted to Staff
6 as required by the Hedging Order.

7 Q. Please explain the importance of duration and timing for electricity supply
8 hedges.

9 A. No entity, including RG&E, can fully predict electricity supply market prices. A
10 structured program that layers in hedges over time smoothes out the impact of
11 price volatility. Hedging too far into the future would expose RG&E's customers
12 to the risk of customer migration. Specifically, if a large portion of customers
13 switch to an energy service company ("ESCO"), the remaining customers would
14 bear the burden of all these hedges in the event of unexpected migration.

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

17 A. Yes. If necessary, RG&E proposes to hedge twelve months into the future.
18 RG&E would hedge approximately 1/12 of its open position each month (subject
19 to standard market products) such that, coupled with RG&E's remaining
20 resources, the desired hedge percentages are achieved prior to the start of the
21 month for which the hedges are applicable.

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

2 A. Financial energy hedges generally trade in 50 MW blocks. In addition, certain
3 months trade together, winter (January and February), spring (March and April),
4 summer (July and August) and fourth quarter (October – December). May, June
5 and September trade individually. Rather than pay a premium for a non-standard
6 product, RG&E would use standard trading blocks to hedge variable price
7 residential customers.

8 **RG&E'S NATURAL GAS PROCUREMENT**
9 **STRATEGIES, PLANS AND POLICIES**

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

11 A. As part of its rate case, RG&E is required under Section 61.3 (d)(6) of the
12 Commission's Codes, Rules and Regulations to establish that its natural gas
13 procurement policies and practices are prudent, ensuring natural gas purchases
14 from the best-cost, reliable sources.

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

16 A. RG&E procures natural gas to promote the best interests of its customers in
17 obtaining the maximum projected value for dollars spent, consistent with
18 maintaining supply capability, system reliability and mitigation of customer risk.

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

21 A. RG&E's natural gas procurement program is a comprehensive process involving
22 many different components of analysis, including analyses with respect to
23 customer demand, price volatility, contract strategy, day-to-day operations and
24 billing activities. RG&E develops detailed short-term and long-term supply plans

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1 based on an assessment of forecast requirements and customer demand that reflect
2 historical and projected future demand, as well as changes in customer migration
3 to retail marketers. The Company ensures that it has sufficient supply to meet
4 design day and winter capability requirements. These plans enable us to analyze
5 and determine the need for transportation and storage assets to meet system
6 reliability requirements, including certain assets to support retail access load
7 migration (i.e., large-customer load balancing and small-customer reliability and
8 balancing requirements).

9 Q. How do you address market volatility?

10 A. RG&E engages in hedging transactions to reduce the exposure of customers to
11 changes in natural gas prices.

12 Q. Please describe the contractual process RG&E uses in supply procurement.

13 A. Our purchasing process encompasses significant contracting activities to evaluate
14 and select natural gas suppliers and pipeline services, as well as to negotiate,
15 execute and administer contractual agreements. Such agreements cover natural
16 gas supply, transportation and storage capacity, and portfolio optimization
17 activities.

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

19 A. While developing and maintaining long-term plans, we continually monitor and
20 manage our short-term, day-to-day operations throughout the year to take
21 advantage of opportunities to maintain reliability and efficiency. We prepare
22 daily short-term forecasts and schedules; adjust our nominations and delivery
23 schedules on the interstate natural gas pipelines that serve our city gates,

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1 incorporating retail access program requirements; and work to identify portfolio
2 optimization opportunities (e.g., capacity releases, third-party sales and volatility
3 mitigation transactions).

4 Q. Are there any other components of analysis in RG&E's natural gas procurement
5 process?

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

9 Q. Is that a complete list of components of RG&E's comprehensive gas procurement
10 program?

11 A. Yes.

12 Q. Please describe RG&E's existing natural gas supply and capacity contracts.

13 A. RG&E's natural gas supply and capacity contracts are designed to serve the
14 Company's two main city gates – at Caledonia and Mendon. The Caledonia city
15 gate is served by Dominion Transmission Inc.'s ("DTI's") pipeline system in
16 addition to pipelines upstream of DTI. The Mendon city gate is similarly
17 connected to the Empire State Pipeline ("Empire") system and pipelines upstream
18 of Empire.

19 Q. Please explain how RG&E sources its supply for retail customers.

20 A. RG&E's portfolio of natural gas supply and capacity contracts is designed to serve
21 the city gates that we just referenced. Given RG&E's portfolio, we are able to
22 acquire natural gas from various sources that originate in the Gulf of Mexico,
23 Appalachia, mid-continent and Canada. Based on system requirements and

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1 availability of supply, we purchase on a best-cost basis in order to optimize the
2 cost effectiveness of purchases on behalf of our retail customers. We not only
3 have geographic supply diversity in our purchasing program, but we maintain
4 price diversity by virtue of the different types of pricing mechanisms that apply to
5 our supply portfolio (e.g., first-of-month index, daily index, fixed price, New
6 York Mercantile Exchange ("NYMEX") futures, storage weighted average cost of
7 gas).

8 Q. Please describe RG&E's portfolio of capacity and storage assets.

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

11 Q. What are the key factors that influence RG&E's natural gas purchasing practices
12 today?

13 A. There are three key factors: (1) the magnitude and variability of RG&E's load;
14 (2) optimization of underground storage use; and (3) mitigation of wholesale
15 natural gas price volatility.

16 Q. In what way does the magnitude and variability of RG&E's load affect RG&E's
17 natural gas purchasing practices?

18 A. RG&E's load consists primarily of high-priority, low-load factor end users. We
19 balance these considerations in a manner that ensures supply reliability while
20 minimizing natural gas costs to our customers.

21 Q. How is underground storage used as a component of RG&E's supply portfolio?

22 A. Natural gas storage is used by RG&E for three primary purposes: (1) to satisfy
23 peak winter demand; (2) to guarantee available supply for short-term peaks

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1 ranging from a few hours to a few days; and (3) to manage daily fluctuations
2 resulting from weather and forecasting variations. To ensure that adequate
3 supplies are available to meet seasonal requirements through the heating season,
4 RG&E injects substantial amounts of natural gas into storage reservoirs from
5 April through October. During these non-heating season months, RG&E's firm
6 natural gas demand decreases as temperatures rise. Thus, storage enables greater
7 system efficiency by allowing level production and transmission flow throughout
8 the year. Because of this leveling effect, storage decreases the amount of new
9 transmission capacity needed to meet the demands of the marketplace. During the
10 heating season, natural gas held in storage supplements supplies and pipeline
11 capacity from the producing regions to meet customers' requirements. Because at
12 any point in time storage natural gas is purchased during the summer months,
13 typically at prices that are lower than flowing supply purchased during the winter,
14 storage can also provide a seasonal price advantage for our customers.

15 Q. How does RG&E mitigate retail price volatility?

16 A. The major element of RG&E's program to mitigate price volatility for its
17 customers involves hedging a portion of RG&E's projected natural gas
18 requirements. Such requirements are hedged through the natural price hedge that
19 is afforded by filling storage during the summer months and withdrawing in the
20 winter season. In addition, we enter into forward financial transactions in order to
21 further manage the price of natural gas for our customers. These strategies and
22 associated transactions are developed and reviewed on an ongoing basis.

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1 Q. Please discuss RG&E's intervention and participation in pipeline rate cases or
2 other proceedings before the regulatory agencies that regulate the natural gas
3 industry.

4 A. RG&E intervenes in natural gas pipeline rate cases, certificate and policy
5 proceedings and Purchased Gas Adjustment filings both at the federal and state
6 levels in order to make sure that the best interests of customers and RG&E are
7 represented in these important regulatory matters. In addition, RG&E participates
8 in similar proceedings before the National Energy Board, which is roughly the
9 Canadian equivalent of the FERC.

MENDON GATE STATION HEATER FUEL COSTS

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11 Q. Do you propose any changes regarding the recovery of the cost of gas used to pre-
12 heat city gate natural gas throughput at the Mendon Gate Station that had
13 previously been accounted for as Operations & Maintenance ("O&M")?

14 A. Yes. RG&E proposes that the Mendon heater fuel cost would be treated as part of
15 overall purchase gas costs. This would be consistent with the recovery of heater
16 costs at other RG&E city gates.

17 Q. Where are Mendon heater fuel costs currently recorded?

18 A. Mendon heater fuel costs are currently recorded as a debit to FERC O&M account
19 875.0 – Measuring & Regulator Station General expense with a corresponding
20 credit to FERC account 812.0 – Purchased Gas expense. It is proposed that the
21 cost stay in Purchased Gas and be recovered through the Gas Supply Charge
22 (“GSC”).

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1 Q. How are the heater fuel costs associated with RG&E's other major gate stations
2 recovered?

3 A. The cost of the heater fuel for all other RG&E city gates is provided by the gas
4 pipelines and is included in Purchased Gas expense. The cost of the heater fuel
5 for all other city gates is recovered through the GSC and transportation customers
6 directly pay the pipelines for the heater fuel.

7 Q. Is the rate year Mendon heater fuel cost expected to be about the same as the
8 historic cost?

9 A. The cost of the Mendon Gate heater gas during the rate year will depend on the
10 market price of gas. No amount is included in the forecast rate year, pending
11 approval for recovery through the GSC.

12 Q. How does the Company propose to charge for the Mendon Gate Station fuel in the
13 GSC?

14 A. The Cost of the Mendon gate heater would use current market price of gas
15 charged proportionally to the sales and the transportation customers as a
16 volumetric charge in their respective GSC or Transportation Rate Adjustments.

17 Q. Have the Mendon Gas station fuel costs been removed from O&M in the rate
18 year?

19 A. Yes.

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GCIM

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Q. Please describe the GCIM in RG&E's existing rate Joint Proposal as further clarified by the Commission in Case 04-G-1278.

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

Q. What is GCIM 1?

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

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

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

Q. Do you propose to extend GCIM 1?

A. Yes, the optimization activities under GCIM 1 provided benefits to ratepayers and proper incentives to RG&E.

NATURAL GAS EXPENSE FORECAST

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

A. Yes. Exhibit __ (RGEENGSP-3) provides a city gate annual expense forecast for 2010 and 2011. The forecast includes projected load requirements together with

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1 natural gas commodity costs and total pipeline costs (i.e., transportation and
2 storage costs).

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

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

10 Q. Does the Company propose to continue the existing Gas Supply Charge to collect
11 the cost of gas purchased for firm sales customers?

12 A. Yes.

LOCAL PRODUCTION PLAN

14 Q. Please discuss local production issues.

15 A. In its August 30, 2007 Order on Capacity Release Programs in Case 07-G-0299,
16 the Commission ordered LDCs with local gas production connected directly to
17 their distribution facilities to file, in their next major rate applications, a plan for
18 use of this local gas production as upstream capacity and its continuing
19 availability as a replacement for capacity provided by the LDC.

20 Q. Does RG&E currently have local production connected to its distribution system?

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

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1 Q. Does RG&E have a process in place for ESCOs to purchase local production gas
2 to satisfy their customers' load requirements?

3 A. Yes, the process is detailed in the Local Production Plan set forth in Exhibit __
4 (RGEENGSP-5).

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

7 A. No. Local production connected to the RG&E distribution system is not
8 sufficiently reliable to be considered a replacement for upstream capacity.

9 Q. Does RG&E have to maintain its firm upstream primary point capacity regardless
10 of local production?

11 A. Yes. RG&E manages supply and capacity to meet design conditions, without
12 making adjustments for the level of production on the system, in recognition of
13 the fact that local production has not always been available when needed. RG&E
14 also maintains firm supply contracts for the same design day requirements in the
15 event that local production is unavailable.

16 Q. Why is it necessary to maintain this capacity and supply at RG&E's city gates?

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

18 Q. Is it conceivable that local production within certain load pockets on the RG&E
19 system could become more robust in the future?

20 A. Yes. At the present time, however, RG&E is not aware of any plans for
21 additional local production interconnects on its system. Marcellus Shale
22 formations in Northern Pennsylvania and the Southern Tier of New York are well
23 south of any RG&E facilities. Even with this developing supply, however,

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1 RG&E must maintain a reliable source of supply to ensure that firm customers are
2 served in accordance with tariff and statutory obligations. At least in the near
3 term, this need will be met by the diverse access to supply on the interstate
4 pipelines.

5 Q. Is RG&E proposing a plan for use of this local gas production as a replacement
6 for upstream capacity?

7 A. Yes, RG&E will implement the Local Production Plan filed as Exhibit __
8 (RGEENGSP-5). Because of the lack of supply on the System, however, RG&E
9 is not proposing a Local Production Area ("LPA") at this time.

RETAIL ACCESS PROGRAMS

11 Q. Do you propose any changes to RG&E's retail access program?

12 A. Yes.

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

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

16 Q. What is the current request date?

17 A. Currently, daily metered customers can submit a formal request to RG&E to
18 change ESCOs five business days prior to the end of the month. The customer is
19 then switched the first calendar day of the next month.

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

21 A. The proposed due date for the formal request is by the fifteenth calendar day of
22 the month and the switch day will remain on the first calendar day of the next
23 month. This will unify the process for all migrating customers according to the

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1 Uniform Business Practice rule in Section 5.D.7, "[t]he distribution utility shall
2 set the effective date, which shall be no sooner than 15 calendar days after receipt
3 of an enrollment request."

4 Q. Why is this change necessary?

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

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

9 A. The Company proposes a reliability surcharge calculation for RG&E similar to
10 NYSEG and release capacity to ESCOs for their non-daily aggregation pools up
11 to a 66 Heating Degree Days ("HDD") and the local distribution company
12 ("LDC") will hold and provide the supply for the remaining load up to 75 HDD.

13 Q. Why is this necessary?

14 A. The demand requirements will be more certain for the ESCO because there will
15 no longer be an unaccounted for energy ("UFE") calculation. This UFE
16 calculation either adds or subtracts for the traditional estimated total usage
17 ("ETU") forecast calculation to ensure a fair distribution according to actual
18 forecasts for all non-daily metered customers. An ESCO will only need capacity
19 up to the 66 HDD instead of the 75 HDD standards. The reliability surcharge is
20 calculated to recover the parties' agreed-upon estimate of the capacity costs that
21 RG&E would incur by assuming responsibility to serve for the additional 9 HDD
22 to maintain reliability of the system.

ELECTRIC AND NATURAL GAS SUPPLY PANEL

1 Q. Do you propose any changes to SmarTRAC?

2 A. Yes.

3 Q. What is SmarTRAC?

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

10 Q. Why does RG&E need to upgrade this system?

11 A. The software has become antiquated and needed calculations cannot be performed
12 in the current system. These calculations must be performed to protect all
13 customers on RG&E's system. Moreover, the existing SmarTRAC technology is
14 no longer economically supportable from an information technology service
15 perspective. The system upgrade will allow more flexibility and provide net
16 benefits over time. A technical justification for an upgrade, a list of functions
17 currently performed in SmarTRAC and a list of new functionalities are provided
18 in Exhibit __ (RGEENGSP-6).

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

20 A. Yes, it does.