

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
REVENUE DECOUPLING MECHANISM PANEL**

**James A. Lahtinen
Mark O. Marini
David W. Segal
Christine M. Stratakos**

September 17, 2009

REVENUE DECOUPLING MECHANISM PANEL

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

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

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

6 A. I am Vice President, Rates and Regulatory Economics of and Rochester Gas and
7 Electric Corporation ("RG&E" or "Company") and New York State Electric &
8 Gas Corporation ("NYSEG" together, "the Companies"). My business address is
9 RG&E, 89 East Avenue, Rochester, New York 14649.

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

11 A. I graduated from the State University of Plattsburgh with a B.A. degree in
12 Economics. I also earned an M.A. in Economics from the State University of
13 New York at Albany. In my present position at NYSEG and RG&E, I am
14 responsible for all aspects of rate regulation. Before joining RG&E, I was
15 employed by Duquesne Light Company ("Duquesne") and one of its affiliates for
16 11 years. At Duquesne, I held the positions of Manager, Transmission Services
17 (1991-1996), General Manager – Rates and Regulatory Analysis (1996-1999),
18 and Vice President – Rates (2001-2002). From 1999-2001, I also held the
19 position of Vice President – Rates and Regulatory Affairs at AquaSource, Inc., an
20 affiliate of Duquesne. I was an economic consultant for Bower Rohr &
21 Associates from 1989-1991. From 1984-1989, I served as Director – Economic

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1 and Regulatory Analysis at Central Vermont Public Service. Before entering the
2 private sector, I was employed by the New York State Department of Public
3 Service from 1979-1984 and held the position of Principal Economist. From
4 1977-1979, I was an Economist at the New York State Consumer Protection
5 Board.

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

9 A. I have testified on several occasions before the Commission, including Cases 02-
10 E-0198, 02-G-0199, 05-E-1222, 07-E-0479, and 07-M-0906. I also sponsored
11 testimony in Cases 09-E-0082, 09-G-0083, 09-E-0084, and 09-G-0085. In
12 addition, I have testified before the regulatory commissions in Pennsylvania, New
13 Jersey, Vermont, Connecticut, Indiana, the District of Columbia, and the Federal
14 Energy Regulatory Commission ("FERC").

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

16 A. I am Manager of Regulatory and Tariffs in the Rates and Regulatory Economics
17 Department for NYSEG and RG&E. My business address is RG&E, 89 East
18 Avenue, Rochester, New York 14649.

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

20 A. I graduated from Rochester Institute of Technology with a B.S. degree in Applied
21 Mathematics. In my present position at RG&E, I am responsible for regulatory

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1 and tariff related issues for NYSEG and RG&E. I was hired by RG&E in June
2 1985. My responsibilities have involved rates and regulatory areas, including
3 electric and gas pricing, development and preparation of cost of service studies
4 (both embedded and marginal), load research, revenue allocation, rate design,
5 tariff design, analysis and administration, and participation in regulatory
6 proceedings. During my tenure, I have increasingly gained supervisory and
7 management responsibilities.

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

10 A. I have testified on several occasions before the Commission. Most recently, I
11 testified in Cases 03-E-0765, 03-G-0766, 05-E-1222, and 07-M-0906. I also
12 sponsored testimony in Cases 09-E-0082, 09-G-0083, 09-E-0084, and 09-G-0085.

13 Q. Mrs. Stratakos, please state your current position and business address.

14 A. I am Manager of Pricing & Analysis in the Rates and Regulatory Economics
15 Department for NYSEG and RG&E. My business address is NYSEG, 18 Link
16 Drive, P.O. Box 5224, Binghamton, New York 13902.

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

18 A. I graduated from Cornell University, with a B.S. degree in Natural Resources. I
19 also earned an M.B.A. from Syracuse University. I have been employed by
20 NYSEG for 32 years, the last 28 of which have been in the rate and regulatory
21 area, with increasing supervisory and management responsibilities. My

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1 responsibilities have involved rate and regulatory areas, including electric and gas
2 pricing, development and preparation of cost of service studies, both embedded
3 and marginal, revenue allocation, rate design, tariff design, analysis and
4 administration, and participation in regulatory proceedings. In my current
5 position, I am primarily responsible for cost of service and rate-related issues for
6 both NYSEG and RG&E.

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

9 A. I have presented testimony before FERC and I have testified on several occasions
10 before the Commission, including Cases 01-E-0359, 05-E-1222, 07-E-0479, and
11 07-M-0906. In addition, I sponsored testimony in Cases 09-E-0082, 09-G-0083,
12 09-E-0084, and 09-G-0085.

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

14 A. I am a Principal with The NorthBridge Group. My business address is 30
15 Monument Square, Suite 105, Concord, Massachusetts 01742.

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

17 A. I graduated from Brown University in 1985 with a Bachelor of Science degree in
18 applied mathematics and economics and obtained a Masters in Business
19 Administration from Harvard University in 1990. I have been employed by The
20 Northbridge Group, an economic and management consulting firm providing
21 advice to clients in the electric and natural gas industries since 1992. I have

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1 consulted with electric and gas utility clients regarding industry restructuring,
2 asset divestitures, stranded cost measurement, risk management, and general
3 industry strategy. Before joining The NorthBridge Group, I was an Associate
4 with Putnam, Hayes & Bartlett where I also advised electric and gas utility
5 clients.

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

8 A. Yes. I have testified on several occasions before the Commission including Cases
9 01-E-0359, 02-E-0198, 01-G-0199, and 05-E-1222.

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

11 A. The Panel will provide the details of RG&E's proposed Gas and Electric Revenue
12 Decoupling Mechanisms ("RDMs"). In particular, the Panel will describe its
13 proposals for the form of the mechanisms, the service classes covered, the process
14 for reconciliation of revenues, triggers for early reconciliation, and resetting of
15 revenue targets for years beyond the initial rate year.

16 Q. What are the Panel's conclusions regarding the RDM it proposes?

17 A. The Panel has reached four key conclusions. First, the Company proposes total
18 revenue per class ("TRC") targets for both electric and gas customers. Second,
19 the Company proposes that the RDM cover substantially all electric service
20 classes, and firm sales and transportation gas service classes, representing
21 approximately 97% and 100% of base delivery revenues, respectively. Third, the

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1 Company proposes an annual reconciliation and surcharge or credit mechanism
2 for RDM-related revenues, with more frequent reconciliation if deferral balances
3 exceed certain trigger level amounts. Fourth, the Company proposes an inflation-
4 based index adjustment for post rate-year revenue targets.

5 Q. Is this Panel sponsoring any exhibits?

6 A. Yes. Exhibit __ (RGERDM-1) summarizes the RDM programs for gas, electric
7 or both, that all the utilities in New York have now adopted, or are in the process
8 of implementing. Exhibit __ (RGERDM-2) shows the customer classes covered
9 under the Company's proposed RDMs. Exhibit __ (RGERDM-3) shows the
10 monthly revenues, usage and customer counts for the test year and the targets for
11 the rate year for each service class covered under the electric and gas RDMs.
12 Exhibit __ (RGERDM-4) shows the jurisdictions in which an inflationary index is
13 an element of the rate structure. Exhibit __ (RGERDM-5) is a bibliography of the
14 non-New York State Public Utility Commission Decisions cited in our
15 Testimony. Exhibit __ (RGERDM-6) contains the testimony of Dr. Susan
16 Tierney and exhibits recently filed on behalf of National Grid in Massachusetts.

17 Q. Why is the Company proposing an RDM in this proceeding?

18 A. The Company proposes an RDM to comply with the Commission's requirements
19 set forth in its April 20, 2007 Order Requiring Proposals for Revenue Decoupling
20 Mechanisms in Cases 03-E-0640 and 06-G-0746 ("RDM Order"), that each utility
21 adopt an RDM in its next rate proceeding.

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1 Q. What is the Commission's reason for implementing an RDM?

2 A. On pages 2-3 of its RDM Order, the Commission stated that the purpose of an
3 RDM is to "significantly reduce or eliminate any disincentives caused by the
4 recovery of utility fixed delivery costs via volumetric rates or marginal
5 consumption blocks." The Commission stated, on page 2 of the RDM Order, that
6 such disincentives "may discourage utilities from actively promoting energy
7 efficiency, renewable technologies and distributed generation" because utilities'
8 revenues are directly tied to the throughput of electricity and gas sold on their
9 system.

10 Q. Does the Company support energy efficiency programs?

11 A. Yes. The Company has been, and continues to be, strongly supportive of energy
12 efficiency efforts in the State. To that end, the Company has actively participated
13 in:

- 14 • Working Groups I-VIII to help set the ground rules for the State
15 Energy Efficiency Portfolio Standard ("EEPS");
- 16 • the more recent Evaluation Advisory Group and Outreach and
17 Marketing Advisory Group;
- 18 • the Northeast Energy Efficiency Partnership Regional Evaluation,
19 Measurement and Verification Forum;
- 20 • the Energy Efficiency Program Administrators Collaborative; and
21 • various utility collaborative activities.

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The Company:

- assembled a diverse and capable project team to help achieve the EEPS goals of 15% electric and 14.7% gas savings by 2015;
- developed, filed, and continued to update a full suite of electric and gas efficiency programs for the Commission's consideration;
- successfully implemented the fast track Residential Gas HVAC program;
- received approval for a Multifamily Program for which implementation services procurement has begun;
- prepared to implement various additional residential and non-residential programs;
- proposed a Block Bidding Program to integrate independent Program Administrators into the EEPS framework; and
- continues to participate actively in the Commission's ongoing proceeding addressing energy efficiency matters.

Q. Have other New York utilities implemented RDMs?

A. Yes. Almost all the utilities in New York have now adopted, or are in the process of implementing an RDM for gas, electric or both. Exhibit __ (RGERDM-1) summarizes these programs.

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1 Q. Are the New York programs uniform or do they differ in certain aspects?

2 A. By and large the programs share common elements. The key parameters of RDM
3 programs are the type of mechanism, the classes covered, the timing of planned
4 and interim reconciliations, and whether there is any provision for changing the
5 targets for post rate-year revenues. Exhibit __ (RGERDM-1) shows that all
6 electric RDM programs in the State use a TRC target for each service class
7 covered, while all gas RDM programs rely on a revenue-per-customer ("RPC")
8 target. Also, all but one program have an annual reconciliation of the difference
9 between allowed and actual revenues. Most of the programs have a mechanism
10 that allows for more frequent reconciliation if balances accumulate beyond a
11 trigger level. The size of the trigger varies as a percentage of revenues among
12 these different programs in the state.

13 Q. Are there other ways in which the programs can be distinguished from each
14 other?

15 A. Yes. Orange & Rockland's ("O&R") electric and gas, and National Grid's gas
16 RDM programs were negotiated as part of multi-year rate joint proposals. By
17 definition, these programs have explicit treatment of target revenues in years
18 beyond the first rate year – O&R electric and gas have specific multi-year targets,
19 while National Grid gas has fixed targets with subsequent filings to support
20 changes in allowance for certain cost items. To date, none of the RDM programs

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1 that have been approved in litigated one-year cases have mechanisms for multi-
2 year treatment.

CONCERN WITH OTHER NEW YORK RDM PROGRAMS

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4 Q. What is the accepted rationale for adopting an RDM?

5 A. Ideally, an RDM should provide an opportunity for utilities to continue to recover
6 unavoidable costs as sales volumes decline due to the impact of energy efficiency
7 and conservation programs implemented in the State. The Commission clearly
8 recognized the need to reduce if not eliminate disincentives for utilities to
9 encourage economical energy efficiency in its RDM Order. The Commission
10 found current rate design provided for recovery of largely fixed operating costs
11 via volumetric rates. As a result, the more a customer uses, the more revenue the
12 utility receives. This rate structure presents a conflict between utility earnings
13 and lower costs for ratepayers achievable through the implementation of
14 economical efficiency programs. An RDM provides a means for the utility to
15 recover otherwise unavoidable costs and thereby reduces the existing tension
16 between earnings and more economical service for ratepayers. Removing the
17 positive correlation between revenues and sales leaves the utility indifferent to
18 reduced usage through the adoption of economical energy efficiency programs.

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1 Q. What concerns does the Company have with the structure of RDM programs
2 adopted by other New York gas and electric utilities?

3 A. There are two main concerns. The first concern is the lack of any mechanism to
4 adjust the RDM targets beyond the rate year in a litigated proceeding. The second
5 concern involves the design of triggers that provide for rate adjustments to ensure
6 deferrals are held to manageable levels.

7 Q. Please explain your first concern.

8 A. While cost components of the revenue requirement (Operations & Maintenance
9 ("O&M"), taxes, and return on and of ratebase) are likely to increase from one
10 year to the next, under an RDM, allowed revenues are held constant or only
11 allowed to grow due to customer growth in the case of a gas utility with an RPC
12 RDM. This fails to recognize that cost increases under a revenue cap will place
13 increasing pressure on the Company's margins and result in inadequate cash flows
14 and earnings.

15 Q. What are the possible implications for the Company if there were no provision for
16 a change in target revenues beyond the rate year?

17 A. The Company would be forced to file a new rate case for the subsequent year to
18 avoid a drop in earnings (a gas RDM with RPC could see higher revenues
19 consistent with any growth in customers).

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1 Q. Hasn't this always been the case for utilities that were not covered by a multi-year
2 agreement?

3 A. Yes. However, absent an RDM in an expanding economy, a utility could have
4 expected to offset normal cost increases with the increased revenue from sales
5 growth. A TRC RDM eliminates the ability to capture additional revenues from
6 increased usage per customer, and the electric RDMs in place in New York to
7 date provide no revenue growth.

8 Q. What is the Company's proposed solution to its first concern?

9 A. As we will explain in more detail later, the Company proposes to adopt an
10 inflation-based index mechanism to adjust revenue targets for both electric and
11 gas companies on an annual basis beyond the initial rate year being litigated.
12 Such a mechanism, invited by the Commission in its RDM Order, would enable
13 the Company to offset increased costs and avoid the time consuming and
14 expensive process of annual rate increase requests.

15 Q. What is the second concern the Company has with RDM programs as adopted in
16 New York?

17 A. Given the Company's financial condition, it is paramount that careful attention is
18 given to the design of the reconciliation mechanism. As we will explain in more
19 detail, we propose interim reconciliation triggers based on a comparable
20 percentage of revenues approved in other programs, and with more rapid
21 collection than those used elsewhere.

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STRUCTURE OF RDM TARGETS

- Q. Please describe the Company's proposed RDM structure.
- A. RG&E proposes that both its gas and electric companies adopt a TRC RDM. Our proposal is consistent with those adopted for the other electric utilities in New York but differs from those approved by the Commission for the gas businesses in the state.
- Q. What is the rationale for proposing a TRC as opposed to a RPC model for the gas company?
- A. There are two reasons. First, one mechanism for both (RG&E gas and electric) businesses is consistent with the Company's goal of ease of rate and tariff administration. Second, the Company believes that system cost increases are driven more by inflation than by new customer additions, and is therefore seeking annual revenue adjustments tied to inflation.
- Q. What customer classes are covered under the Company's proposed electric RDM?
- A. Exhibit __ (RGERDM-2), page 1 of 2, shows the classes covered by the electric RDM. The Company proposes that substantially all of the main service classes would be covered, except buy-back, area lighting, transmission, flex rates, standby and street lighting. SC8-Transmission would not be covered because this class has too few customers.

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1 Q. What percentage of the Company's electric revenues would be covered by the
2 RDM?

3 A. Approximately 97%.

4 Q. What type of electric revenues would be covered under the RDM?

5 A. All base delivery revenues (customer, demand per KW, reactive per rkvah, and
6 delivery per KWH) for applicable classes would be covered. Renewable Portfolio
7 Standard ("RPS"), System Benefits Charge ("SBC"), Merchant Function Charge
8 ("MFC"), Non-Bypassable Charge ("NBC"), Deferral Recovery Mechanism
9 ("DRM") and Temporary State Assessment Surcharge ("TSAS") revenues, which
10 have separate reconciliation mechanisms, would not be covered by the RDM.
11 Economic development discounts and low income discounts would not be
12 reflected in either the target or actual RDM revenues. These also are subject to
13 separate reconciliation mechanisms.

14 Q. What adjustments does the Panel propose if a flex-rate customer returns to its
15 otherwise applicable service class?

16 A. The Panel proposes that the revenue target for the relevant class would increase to
17 reflect the base delivery revenues recovered from such a customer.

18 Q. What customer classes are covered under the Company's proposed gas RDM?

19 A. Exhibit __ (RGERDM-2), page 2 of 2, shows the classes covered by the gas
20 RDM. The Company proposes that substantially all of the fixed sales and
21 transportation only service classes with more than a few customers would be

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1 covered. Customers with individually-negotiated agreements and those taking
2 interruptible service or taking only a service, such as balancing or standby for
3 transportation customers, would be excluded.

4 Q. What adjustments does the Panel propose if a customer from an excluded class or
5 service moves back to a covered class?

6 A. The Panel proposes that the revenue target for the relevant class would increase to
7 reflect the base delivery revenues recovered from such a customer.

8 Q. What percentage of the Company's gas revenues would be covered by the RDM?

9 A. Approximately 100%.

10 Q. What type of gas revenues would be covered under the RDM?

11 A. All base delivery revenues (i.e., customer and delivery per therm) for applicable
12 classes would be covered. SBC, MFC, DRM and TSAS revenues would not be
13 subject to RDM because they have separate reconciliation mechanisms.

14 Economic development discounts and low income discounts would not be
15 reflected in either the target or actual RDM revenues. These also are subject to
16 separate reconciliation mechanisms.

17 Q. Are there tariff changes necessary for RDM implementation?

18 A. Yes. Those changes will be addressed by the Revenue Allocation and Rate
19 Design Panel.

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**RDM TARGETS FOR RATE YEAR AND
PROPOSED RECONCILIATION PROCESS**

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Q. How have you developed the RDM targets?

A. Exhibit __ (RGERDM-3), pages 1 and 2, show the monthly revenues, usage and customer counts for the test year and the targets for the rate year for each service class covered under the electric RDM. Pages 3 and 4 of that same exhibit show test year actuals and rate year target revenues, usage and customer counts for each service class covered under the gas RDM. The rate year targets are based on the proposed allocation of delivery revenues to each service class made by the Revenue Allocation and Rate Design Panel, and the corresponding delivery rates and monthly sales forecasts developed by that Panel and the Deliveries and Revenues Panel.

Q. How does the Company propose to measure and reconcile any amounts due to or from customers under the RDM?

A. The Company will calculate monthly, for each service class covered under the RDM, the difference between target and actual RDM billed revenues. The Company will sum the differences for all classes and defer the monthly amount for return or recovery. The balance will accrue interest at the other customer deposit rate.

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1 Q. How will this annual balance be reconciled?

2 A. As long as the total electric or gas balance due (either from or to customers)
3 remains below an established trigger for that business, the balance will be
4 reconciled through an annual surcharge mechanism that is recovered beginning
5 with usage on the first day of the new rate year. While the balances will be
6 totaled for purposes of determining whether they have met the trigger, when they
7 are recovered or returned they will be made into unique rates for each covered
8 service class.

9 Q. What structure will the reconciliation surcharge or credit take?

10 A. The Panel proposes a per KW surcharge (or credit) for those electric service
11 classes that do not have a per KWH charge, and a per KWH surcharge (or credit)
12 for all other classes. The gas reconciliation will be structured as a per therm
13 surcharge (or credit) for all gas classes covered.

14 Q. What are the trigger levels that the Panel proposes?

15 A. The Panel proposes a trigger of 1.25% of delivery revenues, which is
16 approximately \$5.0 million for RG&E electric and approximately \$2.2 million for
17 RG&E gas. These are slightly lower as a percentage of revenues than provided
18 for in the Central Hudson and O&R RDMs and substantially higher than that
19 provided in the Con Edison electric rate case (approximately 0.25% of electric
20 revenues).

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1 Q. If triggered before the end of the rate year, how would a surcharge or credit be
2 implemented?

3 A. Any triggered surcharge or credit would be calculated in the same way as the
4 annual reconciliation, except that it would be recovered over the remaining term
5 of the rate year or four months, whichever was longer. The amount of the
6 surcharge or credit would be calculated to bring the deferral balance back to zero.

7 Q. Does the Panel propose any limit to the number of times early reconciliation
8 could be triggered?

9 A. No. Again, given the Company's financial condition, keeping deferral balances to
10 a minimum level is the primary design driver.

11 Q. How would the RDM integrate with the weather normalization adjustment
12 ("WNA")?

13 A. The WNA would continue as is, except that the 2.2% deadband would be
14 eliminated. The RDM target would be compared to actual revenues adjusted for
15 the impact of the WNA.

ANNUAL ADJUSTMENT MECHANISM

17 Q. Does the Panel support a mechanism to adjust revenue targets after the first rate
18 year?

19 A. Yes. The Panel proposes that the revenue targets established for the initial rate
20 year be subject to an annual adjustment for inflationary cost increases.

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1 Q. Why is there a need for such an adjustment?

2 A. Between rate cases, the primary drivers of the utilities' delivery costs are created
3 by inflationary cost pressures. The Company strongly believes that in order to
4 appropriately cover such inflationary costs, RDM targets should be subject to an
5 annual adjustment. The Commission suggests, on page 8 of its RDM Order, that
6 an inflation and productivity adjustment mechanism may be incorporated in the
7 RDM mechanism. An annual adjustment for inflationary costs will enable the
8 Company and other parties to avoid the regulatory costs associated with more
9 frequent rate cases. Currently, the Company is able to capture any revenue
10 growth, as system load and the number of customers increase, between rate cases.
11 Both this load and/or customer growth currently increase revenues directly based
12 on average rates in effect at the time. Such revenue growth can help to offset
13 general cost increases over time in operations, maintenance, capital costs, and
14 certain taxes. An RDM mechanism eliminates or significantly restricts the
15 opportunity for the Company to increase revenues, providing no relief from
16 increased costs.

17 Q. What is the specific indexing method that the Panel proposes?

18 A. The Panel proposes that the revenue target for each service class be increased by
19 the change in the GDP implicit price deflator, less 0.5% for a productivity offset,
20 but in no case will there be a negative adjustment to the revenue targets.

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1 Q. Why should the entire revenue target be subject to an index and not just the part
2 that recovers O&M costs?

3 A. There are three main components to the revenue requirement, and each is affected
4 by inflation – O&M, property taxes, and return of and on ratebase. O&M
5 increases with the general level of prices in the economy to support wage,
6 material and benefits cost increases. Property taxes are tied to inflationary
7 pressures for much the same reason. Ratebase related costs increase with
8 inflation since capital expenditures are subject to the same types of inflationary
9 pressures.

10 Q. Is there any precedent for rates and RDM structures in particular to include an
11 inflationary adjustment mechanism?

12 A. Yes. Exhibit __ (RGERDM-4) shows the jurisdictions in which RDM structures
13 included an inflationary index component. Until recently, California employed
14 such a structure with a 0% productivity offset for four different utilities and with a
15 1% offset for one utility (see California Public Utilities Commission Decisions
16 04-03-034, 06-05-016, 05-03-023 and 04-05-055). More recently it has moved to
17 a set of three-year periods with preset annual increases (see California Public
18 Utilities Commission Decisions 08-11-048, 09-03-025, 08-07-009 and 07-03-
19 044). Central Vermont Public Service has implemented such a mechanism with a
20 1% productivity offset (see Vermont Public Service Board Decision on September

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1 30, 2008 in Docket No. 7336). The citations for these decisions are listed in
2 Exhibit __ (RGERDM-5).

3 Q. Are there other companies that have an RPI-X structure outside of an RDM?

4 A. Yes, referring again to Exhibit __ (RGERDM-4), there are several jurisdictions
5 that currently operate under RPI-X style ratemaking. These utilities have
6 productivity offsets that range from 0.4% to 1%.

7 Q. Is there any other evidence available regarding productivity factors?

8 A. Yes. Dr. Susan Tierney of the Analysis Group recently filed RDM testimony on
9 behalf of National Grid in Massachusetts (Case DPU 09-39). A copy of the
10 testimony with exhibits is included in Exhibit __ (RGERDM-6). She documented
11 recent studies of productivity performed for utilities across the country, which
12 appear on page 109 of Exhibit __ (RGERDM-6). Based on that evidence, she
13 arrives at an appropriate productivity offset of 0.5% for the National Grid
14 subsidiaries in Massachusetts. Exhibit __ (RGERDM-6), page 62.

15 Q. This Commission typically imputes a productivity offset of 1% on labor-related
16 costs when examining test year data. Why is this not the appropriate factor?

17 A. There are three reasons. First, the starting point for the Company's revenue
18 requirement does include the 1% factor. Second, that offset relates only to labor-
19 related costs and not the entire bucket of operating and capital-related costs.
20 Third, in previous and traditional rate cases, the Company would keep revenue
21 growth stemming from increased sales. That extra revenue helps produce the

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1 productivity that is expected. Under an RDM, any extra revenue from load
2 growth would flow back to customers and would not be available to offset
3 increased costs.

4 Q. Is there another issue you would like to discuss before you conclude your
5 testimony?

6 A. Yes. In its Order Establishing Commodity Program in Case 07-E-0479, issued
7 August 29, 2007, the Commission approved a Joint Proposal allowing NYSEG to
8 offer an elective fixed price option ("FPO") for three years. As part of the Joint
9 Proposal, NYSEG agreed to address an RDM for delivery and its market-based
10 fixed price supply service, as part of NYSEG's next major electric rate case.

11 While the Commission noted that the scope of the RDM was a positive feature of
12 the Joint Proposal, it expressed concern that, given the short timeframe in which
13 the parties collaborated and reached agreement, there was insufficient time for a
14 full development and consideration of an RDM. As a result, the Commission
15 initiated a new proceeding, Case 07-E-0996 (later changed to Case 07-M-0996),
16 to examine whether the linkage of sales and profits of sales under the FPO
17 commodity option may conflict with the philosophy of an RDM.¹

¹ On October 22, 2007, the Commission consolidated Case 07-M-0996 with the Iberdrola/Energy East merger proceeding (Case 07-M-0906). The Commission's January 6, 2009 Order Authorizing Acquisition Subject to Conditions adopted the Administrative Law Judge's Recommended Decision that the RDM be considered in the Company's next rate case.

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1 Q. Does the issue also apply to RG&E?

2 A. Technically, no. Nonetheless, in the Iberdrola/Energy East merger proceeding
3 (Case 07-M-0906), the Company, along with NYSEG, filed Rebuttal Testimony
4 of the Revenue Decoupling Mechanism Panel ("RDM Panel"). The RDM Panel
5 found three main reasons why an RDM should not be applied to the Company's
6 commodity programs: 1) the economics of the commodity and delivery business
7 are fundamentally different; 2) the Company has little incentive to increase sales;
8 and 3) other program design features of the commodity programs made
9 application of an RDM inappropriate. We agree and those reasons are still valid.

10 Q. Is there now an additional reason why application of an RDM to the Company's
11 commodity programs is inappropriate?

12 A. Yes. On March 2, 2009, RG&E and NYSEG filed a Petition Regarding
13 Commodity Programs in Cases 07-E-0479 and 03-E-0765. In the petition, RG&E
14 notified the Commission that it would not offer an FPO in 2010. RG&E also
15 sought approval to make its market-based supply service and NBC charges fully
16 reconcilable on a monthly basis. The full reconciliation would eliminate any
17 profit potential on the sale of commodity service. Assuming the revisions to the
18 Company's market-based supply service are approved by the Commission, such
19 revisions should eliminate any remaining concerns the Commission may have had
20 regarding the linkage of sales and profits under the commodity programs.

REVENUE DECOUPLING MECHANISM PANEL

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

2 A. Yes.