

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 ALLOCATION AND RATE DESIGN PANEL**

**Lori A. Cole
David George
Brian R. Maloney
Mark O. Marini**

September 17, 2009

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. Please state the names of the members on this Revenue Allocation and Rate
2 Design Panel.

3 A. We are Lori A. Cole, David George, Brian R. Maloney and Mark O. Marini.

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

5 A. My current position is Lead Analyst, in New York State Electric & Gas
6 Corporation's ("NYSEG") Rates and Regulatory Department. My business
7 address is NYSEG, 18 Link Drive, P.O. Box 5224, Binghamton, New York
8 13902.

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

10 A. In 1996, I received a Bachelor of Science degree from Binghamton University,
11 State University of New York. I was hired by NYSEG in June of 1996, working
12 as a Chemical Technician. I was promoted to Environmental Specialist in June of
13 1998. In November of 1998, I became an Analyst in Rates and Tariffs on a
14 temporary assignment and was then promoted to Project Analyst in May of 1999.
15 In that position, I provided support for tariff development and interpretation, rate
16 design, and the Company's revenue and forecast model. In July of 2004, I was
17 promoted to my current position. In my current position, I am responsible for
18 regulatory and tariff-related issues for NYSEG and RG&E, participation in
19 regulatory proceedings, forecasting of NYSEG electric economic rate incentive
20 discounts, and designing rates for NYSEG's Street Lighting and Outdoor Lighting
21 service classifications.

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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.

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

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

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

10 A. I graduated from the Rochester Institute of Technology with a Bachelor of
11 Science degree in Accounting. I was hired by RG&E in 1999 as an Accountant in
12 the Income Tax Department. I transferred to Rates and Regulatory Economics as
13 an Analyst in 2002, and was promoted to my current position in 2007. My
14 responsibilities have primarily included electric pricing and rate design,
15 preparation of historic regulated earnings studies, and revenue requirements
16 forecasting.

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

19 A. I testified in Cases 02-E-0198 and 02-G-0199.

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

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

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

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

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

11 A. I have testified before the Commission in Cases 02-G-0199 and 03-G-0766. I
12 also sponsored testimony in Cases 09-E-0084 and 09-E-0085.

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

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

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

18 A. I graduated from Rochester Institute of Technology with a Bachelor of Science
19 degree in Applied Mathematics. In my present position at RG&E, I am
20 responsible for regulatory and tariff related issues for NYSEG and RG&E. I was
21 hired by RG&E in June 1985. My responsibilities have involved rates and
22 regulatory areas, including electric and gas pricing, development and preparation
23 of cost of service studies (both embedded and marginal), load research, revenue

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1 allocation, rate design, tariff design, analysis and administration, and participation
2 in regulatory proceedings. During my tenure, I have increasingly gained
3 supervisory and management responsibilities.

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

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

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

10 A. The primary purpose of this testimony is to present the Company's electric and
11 gas delivery revenue allocation and rate design proposals. These proposals are
12 designed to recover the revenue increases that are supported by the Revenue
13 Requirements Panel. For electric service, the proposed delivery rates are
14 designed to produce an overall revenue increase of \$86,334,000 (excluding
15 revenue taxes), or 23.9% of total electric delivery revenues, for the Rate Year
16 (September 1, 2010 through August 31, 2011). For gas service, the proposed
17 delivery rates are designed to produce an overall revenue increase of \$61,498,000
18 (excluding revenue taxes), or 47.1% of total gas delivery revenues, for the Rate
19 Year. We also propose changes in the application of the Bill Issuance and
20 Payment Processing charge ("BIPP") and implementation of an electric Merchant
21 Function Charge ("MFC"). We present specific rate design proposals relative to
22 economic development programs and describe the recovery of economic
23 development rate incentives and low income program bill discounts through base

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1 delivery rates. In addition, we propose non-rate changes to street lighting
2 services. We also present several tariff modifications and discuss a revised bill
3 format.

4 Q. Is this Panel sponsoring any exhibits?

5 A. Yes. The following exhibits support the Panel's testimony:

- 6 • Exhibit __ (RGERARD-1) (development of electric delivery revenues,
7 present versus proposed, by service class);
- 8 • Exhibit __ (RGERARD-2) (present and proposed electric delivery rates by
9 service class);
- 10 • Exhibit __ (RGERARD-3) (electric total bill comparisons);
- 11 • Exhibit __ (RGERARD-4) (electric delivery bill comparisons);
- 12 • Exhibit __ (RGERARD-5) (results of the electric revenue to revenue
13 requirement ratio analysis based on embedded cost of service and
14 marginal cost of service study results);
- 15 • Exhibit __ (RGERARD-6) (summary of electric economic development
16 rates);
- 17 • Exhibit __ (RGERARD-7) (development of gas delivery revenues, present
18 versus proposed, by service class);
- 19 • Exhibit __ (RGERARD-8) (present and proposed gas delivery rates by
20 service class);
- 21 • Exhibit __ (RGERARD-9) (gas total bill comparisons);
- 22 • Exhibit __ (RGERARD-10) (gas delivery bill comparisons);
- 23 • Exhibit __ (RGERARD-11) (results of the gas revenue to revenue
24 requirement ratio analysis based on embedded cost of service and
25 marginal cost of service study results); and
- 26 • Exhibit __ (RGERARD-12) (index of the Panel's workpapers). A copy of
27 the workpapers was provided to Department of Public Service Staff
28 ("Staff").

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BACKGROUND ON REVENUE ALLOCATION AND RATE DESIGN

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- Q. What are the Company's revenue allocation and rate design goals?
- A. The Company's primary goal is an adequate, fair and efficient revenue allocation and rate design process. Equally important in this proceeding is the goal of rate stability. Adequacy is necessary to ensure that the rates are designed to recover the necessary revenue requirement set forth by the Revenue Requirements Panel. Fairness calls for allocating the total revenue requirement among the Company's various customer classes in a way that most closely reflects the cost of providing services to each class. Efficiency means designing rates to recover costs from customers in a way that reflects, as closely as possible, the manner in which those costs are incurred by the Company. Rate stability recognizes the need to employ gradualism when the implementation of rates based solely on the other goals would cause unexpected changes that significantly impact customer bills.
- Q. How has RG&E addressed adequacy?
- A. The Company has addressed adequacy by designing its rates to recover the delivery revenue requirement proposed by the Revenue Requirements Panel from the various service classifications. Exhibit __ (RGERARD-1) and Exhibit __ (RGERARD-7) illustrate the proposed electric and gas delivery revenue, respectively, by service class for the Rate Year.
- Q. How has the Company attempted to meet the goal of fairness?
- A. In attempting to achieve a fair revenue allocation and rate design process, the Company conducted cost of service studies, both embedded and marginal, to guide electric and gas revenue allocation among the service classifications. Cost

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1 of service studies have traditionally served as one of the basic tools of ratemaking.
2 The results of the cost of service studies are presented by the Embedded Cost of
3 Service ("ECOS") Panel and the Marginal Cost of Service ("MCOS") witness, Dr.
4 Hethie Parmesano. Furthermore, recognizing that some judgments and
5 approximations are used in any cost analysis, the Company applied tolerance
6 bands to the results of the cost studies to account for potential variations in
7 results. The application of tolerance bands is a well-established and accepted tool
8 in the revenue allocation process.

9 Q. Please discuss efficiency in the rate setting process.

10 A. Rates should be designed in the most economically efficient manner possible.

11 That means rates should collect costs in a way that reflects, as closely as possible,
12 the manner in which those costs are incurred. Economic theory is clear that, with
13 efficiency being the goal, the pricing of services should be based on the marginal
14 costs of providing those services. The Commission has long recognized the use
15 of marginal costs in the rate setting process. See, e.g., Cases 08-E-0887 and 08-
16 G-0888, Order Adopting Recommended Decision with Modifications (June 22,
17 2009) (directing Central Hudson to file a marginal cost study in its next rate case);
18 Case 07-E-0523, Order Establishing Rates for Electric Service at page 138
19 (March 25, 2008) (noting that the Commission "typically examines the results of a
20 current, marginal cost study" when making rate design determinations); Cases 94-
21 E-0098 and 94-E-0099, Approved as Recommended and So Ordered (Aug. 15,
22 2001); Case 26806, Opinion No. 76-15 – Opinion and Order Determining
23 Relevant of marginal Costs to Electric Rate Structures (Aug. 10, 1976).

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1 Therefore, the Company is utilizing the results of its MCOS study to guide its rate
2 design. The Commission has also acknowledged that the cost of a utility's
3 delivery system is substantially fixed in nature, meaning the cost of providing
4 delivery service does not vary with the use of the delivery system. See, e.g., Case
5 99-E-1470, Opinion and Order Approving Guidelines for the Design of Standby
6 Service Rates (Oct. 26, 2001). The proposed rate design attempts to collect
7 delivery costs, to the extent practicable, through fixed charges.

8 Q. How has the Company considered the rate stability objective?

9 A. The Company's revenue allocation and rate design goals are often conflicting.
10 For example, moving strictly to cost of service-based revenue allocation and rate
11 design could cause dramatic changes in rates, resulting in significant bill impacts
12 on customers. Consequently, in recognition of the overall increase requested and
13 current economic conditions, the Company has proposed a revenue allocation that
14 generally allocates an overall average increase to the class, unless both the MCOS
15 and ECOS studies clearly support a greater or lesser percentage change, as we
16 will discuss further. Additionally, and as we will further discuss, customer bill
17 impacts are considered during the rate design process. The Company is also
18 proposing grandfathering, as needed, for certain customer groups to mitigate bill
19 impacts, while clearly stating its intentions for future treatment.

20 Q. Are there other considerations in the rate setting process?

21 A. Yes. Where appropriate and to the extent feasible, the Company's proposal is
22 designed to make RG&E consistent with NYSEG in order to ease rate and tariff
23 administration. Additional considerations included in the testimony of others are

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1 also recognized in the rate setting process. As we will discuss further, the rates
2 proposed herein are designed to recover the Company's costs of economic
3 development programs and providing assistance to low income customers.

ELECTRIC REVENUE ALLOCATION

4
5 Q. Please begin your testimony by describing the electric delivery revenue
6 requirement.

7 A. The Company's revenue allocation and rate design process begins with the electric
8 delivery revenue requirement presented by the Revenue Requirements Panel.
9 The electric delivery revenue requirement consists of base delivery revenue
10 requirement (customer, demand and delivery kilowatt hour ("kWh") revenues)
11 and other delivery revenue adjustments. This Panel allocates the revenue increase
12 to service classifications and designs rates for each class on the proposed gross
13 base delivery revenue requirement for that class, adjusted to remove the
14 component that will be collected through the MFC charge, the BIPP charge and
15 System Benefits Charge ("SBC") that is currently collected through base delivery
16 rates. Other delivery revenue adjustments consist of surcharges that are charged
17 to all or most customers and credits for Economic Development and Low Income
18 programs that are applied to qualifying customers and recovered through base
19 delivery rates. The development of base delivery revenues by service
20 classification and other delivery revenue adjustments are summarized on Exhibit
21 __ (RGERARD-1).

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1 Q. How does the Company build revenues for Economic Development and Low
2 Income program funding into delivery rates?

3 A. In order to collect the delivery revenue requirement set forth by the Revenue
4 Requirements Panel, the Company must design its delivery rates, including the
5 increase, on the gross base delivery rate year revenue requirement. To do
6 otherwise would leave the Company with a revenue shortfall for the costs of the
7 Economic Development and Low Income programs. The delivery revenues
8 summarized in Exhibit __ (RGERARD-1) properly include costs associated with
9 Economic Development and Low Income programs.

10 Q. Before allocating the electric revenue increase to service classes, what rate
11 changes are necessitated by the proposal to move the collection of fixed
12 production costs from the Non-Bypassable Charge ("NBC") to delivery?

13 A. As discussed in the testimony of the Revenue Requirements Panel, the Company
14 is proposing to collect the costs associated with RG&E's fixed production in
15 delivery rates, rather than continue the current method of collecting such costs in
16 the NBC. The Test Year revenue requirements are adjusted for the transfer of
17 these costs from the NBC to delivery for the Rate Year. Accordingly, the delivery
18 rates for each service class need to be adjusted to include the amount of fixed
19 production costs being transferred.

20 Q. Please explain how service class delivery rates are adjusted to recover costs for
21 fixed production that are currently collected through the NBC.

22 A. The Panel began with the total amount of NBC fixed production costs being
23 transferred to delivery for the rate year, as identified in Exhibit __ (RGEDRP-3),

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1 Schedule A, Page 7 of 7. Using this information, a fixed production cost rate was
2 developed for each service class to determine the amount to recover in our current
3 rate year delivery revenues. The production cost rate for each service class was
4 developed to maintain the same rate structure as in the current NBC to avoid any
5 class revenue reallocations associated with transferring these costs from the NBC
6 to delivery rates. Specifically, the unit production cost rate for each service class
7 was computed in the following manner: for service classes in which NBC
8 revenues are collected on a \$/kWh basis, a per kWh charge was developed for that
9 service class, and for service classes in which NBC revenues are collected on a
10 \$/kilowatt ("kW") basis, a per kW charge was developed for that service class. A
11 separate calculation was made for customers taking service under SC-14 Standby
12 Service. For standby customers, the applicable service class fixed production cost
13 rate calculated above is added to the existing SC-14 Standby Service delivery
14 rate. The difference in fixed production cost revenues between the standard
15 service classes and SC-14 standby service was allocated to all standard service
16 classifications on a proportionate basis, resulting in final fixed production cost
17 rates for each service class. Finally, rate year revenues are then computed for
18 each service class by applying the adjusted tariff rates (including transfer of fixed
19 production cost to delivery) to the rate year billing determinants. The process
20 described above is intended to maintain revenue neutrality, as existing delivery
21 revenues are increased by the same amount NBC revenues are reduced.

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1 Q. Did the Company utilize the results of ECOS and MCOS studies for its revenue
2 allocation?

3 A. Yes. The Company used the results of ECOS and MCOS studies as an initial
4 guide in the allocation of delivery revenues among service classifications.

5 Q. How are the results of the ECOS and MCOS studies used as guides in allocating
6 delivery revenues?

7 A. As the initial step in the revenue allocation process, we looked at the results of
8 both the ECOS and MCOS studies presented, respectively, by the Embedded Cost
9 of Service Panel ("ECOS Panel") and Dr. Hethie Parmesano. For our purposes,
10 we first removed the surcharge costs and revenues from the studies. We then
11 compared in both studies the ratios of the revenue to revenue requirement for each
12 class ("revenue to revenue requirement ratio"). For the ECOS study, the revenue
13 requirement was based on the "bottom-up" analysis provided by the ECOS Panel,
14 which derives the revenues required from each service class to achieve a rate of
15 return equal to the overall average rate of return. A similar analysis was done
16 based on the MCOS study results. The Company compared the forecast of delivery
17 revenues at current rates to the revenues that would be received if the class were
18 paying efficient prices based on the MCOS study adjusted to reflect the ratio of
19 overall marginal cost revenue requirement to overall forecast revenues at existing
20 rates. The results of the "revenue to revenue requirement" analysis are shown in
21 Exhibit __ (RGERARD-5). This approach is similar to the revenue allocation
22 proposed in the Company's 2003 rate cases (Cases 03-E-0765 and 03-G-0766)

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1 and adopted by the Commission in the Company's 2002 rate cases (Cases 02-E-
2 0198 and 02-G-0199).

3 Q. How did the Panel apply the results of the revenue to revenue requirement
4 analysis in allocating the revenue requirement among service classifications?

5 A. We applied a 20% tolerance band to both of the revenue to revenue requirement
6 results. That is, if the revenue to revenue requirement ratios of both the ECOS
7 and MCOS studies for any of the service classes fall outside of the +/-20%
8 tolerance band in the same direction, those classes are subject to something other
9 than an across-the-board revenue allocation.

10 Q. What was the next step in the revenue allocation process?

11 A. As can be seen on Exhibit __ (RGERARD-5), the only service classifications
12 ("SC") for which the revenue to revenue requirement ratios for both studies is
13 outside the 20% band in the same direction are the Street Lighting classes. After
14 adjusting revenues to apply the overall increase to all classes, an additional
15 increase of 25% of the overall average increase was applied to the Street Lighting
16 classes and a slight adjustment was made to bring the other classes down to
17 achieve the overall delivery increase.

18 **ELECTRIC SERVICE CLASS RATE DESIGN**

19 Q. Please describe the general principles you applied in designing rates, including
20 how the Company considered bill impacts in designing the service class delivery
21 rates.

22 A. As discussed above, in designing rates to cover the service class revenue
23 requirement, we compared current rates to the efficient prices established by the

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1 MCOS study supported by Dr. Parmesano. We compared currently effective
2 customer charges to marginal cost-based efficient prices, which are based on the
3 fixed customer costs and facilities costs (referred to as "customer charges" in this
4 section). For customer charges, to the extent that the efficient price exceeded the
5 current charge, we increased the customer charge. However, in consideration of
6 bill impacts, we imposed a constraint such that no customer charge within a class
7 would be increased by more than 125% of the overall service class increase.

8 After increasing the customer charge for the class, the remaining delivery increase
9 was collected through the other delivery rate components.

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

12 A. Yes. In the Order Adopting Recommended Decision With Modifications, issued
13 March 7, 2003, in Cases 02-E-0198 and 02-G-0199, the Commission approved an
14 increase in the monthly electric customer charge. In reaching that decision, the
15 Commission stated, at page 78, that the rate change moved the customer charge
16 "closer to marginal costs, which is in accordance with sound ratemaking
17 principles...." In its Order Adopting Provisions of Joint Proposals With
18 Conditions, issued May 20, 2004 in Case 03-E-0765 and 03-G-0766, electric and
19 gas monthly customer charges were increased for several service classes, with the
20 recognition that the charges were moving closer to their underlying marginal cost.
21 The proposed increase in customer charges continues moving such charges closer
22 to the customer and fixed distribution costs identified in the MCOS study and is

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1 consistent with the rate principal of moving the fixed charges out of variable kWh
2 charges and into the fixed customer charges.

3 Q. What specific rate changes does the Panel propose for each service class?

4 A. A comparison of present and proposed rates are shown on Exhibit ____
5 (RGERARD-2). For the purpose of this testimony and in the Exhibits, the per
6 month customer charges do not include the BIPP charge, which has been
7 unbundled into a per-bill charge. As applicable, the customer charges do include
8 metering competitive services rate as discussed by the ECOS panel.

9 Q. Other than the general principles you discussed, what specific rate design changes
10 does the Panel propose for each service class?

11 A. For electric SC-1 - Residential Service, the Company proposes to raise the
12 customer charge to \$24.38 per month, an increase of \$5.00. The monthly
13 customer charge increase is supported by the MCOS study, which indicates an
14 efficient monthly price of \$30.75. Although this increase does not raise the
15 customer charge all the way to the level indicated by the MCOS study, it does
16 move the customer charge in the right direction while taking bill impacts into
17 consideration. The remainder of the increase is collected through the kWh
18 charge, resulting in a proposed charge of \$0.03945 per kWh.

19 Q. What is the Company proposing for electric SC-2 - Small General Service?

20 A. For electric SC-2, the Company proposes to raise the customer charge by \$5.00
21 per month, from \$19.38 to \$24.38. The monthly efficient customer cost per the
22 MCOS is \$150.01 and, therefore, supports this increase. Again, although this
23 increase does not raise the customer charge all the way to the level indicated by

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1 the MCOS study, it does move the customer charge in the proper direction while
2 limiting the increase to 125% of the overall service class increase. The remainder
3 of the increase is applied to the kWh charge, resulting in a proposed charge of
4 \$0.02964 per kWh.

5 Q. What is the Company proposing for electric SC-3, General Service - 100
6 Kilowatts Minimum?

7 A. The MCOS study indicates that a fixed monthly charge of \$574.87 is warranted
8 for SC-3. The Company is proposing to raise the customer charge by \$41.14 per
9 month to \$200.52 per month. The remainder of the increase is applied to the
10 monthly demand charge, resulting in a charge of \$17.83 per kW. The minimum
11 demand charge is adjusted to reflect the change in the monthly demand charge.

12 Q. Does the Company have a proposal for electric SC-4, Residential Service - Time-
13 of-Use Rate?

14 A. Yes. The Company is proposing to increase the monthly customer charges by
15 \$6.03, to \$29.39, for Schedule I, and by \$6.93, to \$33.77, for Schedule II. This
16 increase in customer charges is supported by the monthly efficient customer cost
17 of \$59.49 per the MCOS study. The remaining increase is applied on an equal
18 percentage to the peak and off-peak kWh charges. For Schedule I, the resulting
19 peak kWh charge is \$0.04617 and the resulting off-peak kWh charge is \$0.03990.
20 For Schedule II, the resulting peak kWh charge is \$0.06422 and the resulting off-
21 peak kWh charge is \$0.04599.

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1 Q. Is the Company proposing any changes to SC-5 Buy-Back Service?

2 A. Yes, the Company is proposing a complete revision of its Buy-Back Service. The
3 current service offers the purchase of energy from qualifying customers at a fixed
4 price. The Company proposes to change the service to offer qualifying customers
5 a market-based price for their energy and, if applicable, their capacity. We will
6 describe the new Buy-Back Service in more detail later in our testimony.

7 Q. Please address the Company's proposal for electric SC-6, Area Lighting Service.

8 A. The Company is proposing to increase the per unit charges of SC-6 on an equal
9 percentage basis.

10 Q. Does the Company have a proposal for electric SC-7, General Service - 12 kW
11 Minimum?

12 A. Yes. The MCOS study suggests a monthly charge of \$349.22 is warranted for
13 SC-7. The Company is proposing to increase the customer charge by \$12.75 per
14 month to \$62.13. The Company is proposing to maintain the 0-200 hours use and
15 greater than 200 hours use at their current levels, and collect the remainder of the
16 increase through the monthly demand charge, resulting in an increase to the
17 demand charge of \$3.49 to \$16.87 per kW. The minimum demand charge is also
18 adjusted to reflect the change in the monthly demand charge.

19 Q. What is the Company's proposal for electric SC-8, Large General Service - Time-
20 of-Use?

21 A. The Company is proposing to grandfather new customers who would otherwise
22 qualify for the SC-8 Sub Transmission – Industrial and Sub Transmission –

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1 Commercial service classes after the effective date of new rates in this case. New
2 customers taking service at 34,500 volts will be served at SC-8 Primary.

3 Q. Why is the Panel proposing this change?

4 A. As indicated by the ECOS study, there is no longer a cost justification to support a
5 separate service classification for customers taking service at 34,500 volts.

6 Q. Is the Company proposing any other changes to its SC-8 service classifications?

7 A. Yes, the Company is proposing to change the name of the SC-8 Sub Transmission
8 – Secondary service class to SC-8 Substation service.

9 Q. What customers will be eligible for this service?

10 A. Current SC-8 Sub Transmission – Secondary customers, new customers who
11 would have qualified for SC-8 Sub Transmission-Secondary, and any new
12 customers with a dedicated substation that transforms to the primary voltage level
13 will be eligible for this class.

14 Q. What is the reason for including new customers with dedicated sub-transmission-
15 to-primary substations in the newly named SC-8 Substation service class?

16 A. These customers are served at primary voltage, but because they have a dedicated
17 substation, the costs of delivering electricity to them is different than that cost of
18 serving primary customers who use shared primary facilities.

19 Q. Is the Company proposing changes to its SC-8 rates?

20 A. Yes. The Company proposes to raise the monthly fixed customer charges to
21 SC-8. The customer charge increases will vary based on service voltage, and,
22 even with the proposed increases, will remain levels below the marginal customer
23 costs provided by the MCOS study. The remainder of the increase for each

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1 service voltage will be applied to the monthly demand charge. Based on the
2 above, SC-8 - Transmission rates will see a monthly customer charge increase of
3 \$245.06 (to \$1,194.44 per month), and an increase in the demand charge of
4 \$1.05/kW (to \$6.17/kW). SC-8 - Primary rates will see a monthly customer
5 charge increase of \$116.00 (to \$565.38 per month), and an increase in the demand
6 charge of \$2.52/kW (to \$14.89/kW). The grandfathered SC-8 – Sub Transmission
7 - Industrial rates will see a monthly customer charge increase of \$180.53 (to
8 \$879.91 per month), and an increase in the demand charge of \$1.69/kW (to
9 \$9.97). The grandfathered SC-8 – Sub Transmission - Commercial rates will see
10 a monthly customer charge increase of \$180.53 (to \$879.91 per month), an
11 increase in the demand charge of \$1.85/kW (to \$10.90/kW). SC-8 – Substation
12 (formally SC-8 – Sub Transmission-Secondary) rates will see a monthly customer
13 charge increase of \$206.34 (to \$1,005.72 per month), and an increase in the
14 demand charge of \$1.79/kW (to \$10.80/kW). Finally, SC-8 - Secondary rates will
15 see a monthly customer charge increase of \$128.91 (to \$628.29 per month), and
16 an increase in the demand charge of \$2.53/kW (to \$15.07/kW). The minimum
17 demand charge for each voltage level is adjusted to reflect the change in the
18 monthly demand charges.

19 Q. Please describe the Company's proposed changes for electric SC-9, General
20 Service - Time-of-Use.

21 A. The Company proposes to increase the monthly customer charge by \$12.75 to
22 \$62.13 per month, a move supported by the results of the MCOS study, while
23 taking resulting bill impacts into consideration. The remainder of the increase is

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1 reflected through increases to the peak kWh and off-peak kWh charges, and the
2 monthly demand charges. The resulting peak and off-peak kWh charges are
3 \$0.01969 and \$0.01667, respectively. The resulting demand charge increases by
4 \$2.31/kW to \$11.32/kW. The minimum demand charge is also adjusted to reflect
5 the change in the monthly demand charge.

6 Q. Is the Company proposing any changes to electric SC-14, Standby Service?

7 A. Yes, the Company proposes to change the standby rates to reflect the proposed
8 revenue requirement and the results of the electric MCOS study. The Company is
9 proposing to continue to design the standby delivery rates using the method
10 agreed to in the Commission's July 29, 2003, Order Establishing Electric Standby
11 Rates in Case 02-E-0551, whereby each standby delivery rate is based on the
12 revenue requirements of the otherwise applicable service class ("OASC") and the
13 service class revenue requirement is allocated to each standby rate component
14 based on the MCOS study. In addition, all surcharges of the OASCs will continue
15 to apply to SC-14 customers.

16 Q. Is the Company proposing any changes to how transition costs are collected from
17 SC-14 customers?

18 A. Yes. Currently the standby transition charge is reset annually and fixed for one
19 year and is applied to the contract demand and as-used demand components of the
20 standby delivery rates. The Company is proposing to apply the same transition
21 charge that is charged to the standby customer's OASC.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. What specific rate changes is the Company proposing for SC-14?

2 A. The present and proposed rates for SC-14 are included in Exhibit __ (RGERARD-
3 2).

4 Q. Please discuss any changes to SC-1, 2 and 3 of P.S.C. No. 18 - Street Lighting.

5 A. The Company is proposing to allocate the increase on a uniform percentage basis
6 for all unit rates for lamps, brackets and facilities in SC-1, on a uniform
7 percentage basis for all energy charges in SC-2, and to the energy rate per billing
8 face in SC-3.

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

11 A. Exhibit __ (RGERARD-2) compares the present and proposed rates for each
12 service classification, Exhibit __ (RGERARD-3) illustrates the effect of the
13 revenue increases on customer total bills for a range of usage levels, and Exhibit
14 __ (RGERARD-4) illustrates the effect of the revenue increase on customer
15 delivery-only bills for a range of usage levels.

GAS REVENUE ALLOCATION

17 Q. Please describe the gas delivery revenue requirement.

18 A. Similar to electric, the Panel begins with the delivery revenue requirement
19 supported by the Revenue Requirements Panel. The delivery revenue
20 requirement consists of base delivery revenue requirement (customer and therm
21 charge revenues) and other delivery revenue adjustments. This Panel allocates
22 revenues to service classifications and designs rates for each class on the proposed
23 gross base delivery revenue requirement for that class, adjusted to remove the

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 component that will be collected through the MFC charge and the BIPP charge.

2 Other delivery revenue adjustments consist of surcharges that are charged to all or
3 most customers, Economic Development rate incentives and Low Income bill
4 credits that are applied to qualifying customers and recovered through base
5 delivery rates. The development of base delivery revenues by service
6 classification and other delivery revenue adjustments are summarized on Exhibit
7 __ (RGERARD-7).

8 Q. How does the Company build revenues for Economic Development and Low
9 Income Funds into gas delivery rates?

10 A. As discussed for the electric revenue allocation, the Company designs its base
11 delivery rates, including increase, based on the gross delivery rate year revenue
12 requirement. The delivery revenues summarized in Exhibit __ (RGERARD-7)
13 include the discounts associated with Economic Development and Low Income
14 programs.

15 Q. What revenue allocation process does the Company propose to use for gas
16 delivery rates?

17 A. The process to allocate gas delivery revenues is similar to that used for electric
18 delivery revenues. Service class revenue to revenue requirement ratios that result
19 from the ECOS and MCOS studies are then used to guide revenue allocation, with
20 a 20% tolerance band applied to the results. Those results are presented in
21 Exhibit __ (RGERARD-11). For the purpose of the revenue to revenue
22 requirement analysis, SC-1 and SC-5 were combined because the rates for those

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 classes are designed together. In this way, the same delivery rates will apply to
2 all customers, regardless of the customer's supplier.

3 Q. What did the Panel conclude from this analysis?

4 A. As can be seen on Exhibit __ (RGERARD-11), there are no classes for whom the
5 20% band is exceeded in the same direction. Consequently, all classes were
6 allocated an increase equivalent to the overall average increase.

GAS SERVICE CLASS RATE DESIGN

7
8 Q. Please describe the general principles you applied in designing rates, including
9 how the Company considered bill impacts in designing the service class delivery
10 rates.

11 A. In designing rates to cover the service class revenue requirement, we compared
12 current rates to the efficient prices established by the MCOS study supported by
13 Dr. Parmesano. We compared currently effective customer charges to marginal
14 cost-based efficient prices, which are based on the fixed customer costs and
15 facilities costs (referred to as "customer charges" in this section). To the extent
16 that the efficient price exceeded the current charge, we increased the customer
17 charge. However, in consideration of bill impacts, we imposed a constraint such
18 that no customer charge within a class would be increased by more than 125% of
19 the overall service class increase. In a similar manner, tailblock rates were
20 compared to the marginal cost-based term charges. If the marginal cost rate was
21 greater than the tailblock rate, the proposed tailblock rate was increased toward
22 marginal cost, subject to the 125% constraint mentioned above. If the marginal
23 cost rate was less than the currently effective tailblock rate, no change was

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 proposed to that rate in recognition of Commission efforts to encourage energy
2 efficiency. The remaining dollars to collect from the class are collected through
3 the remaining block rates on an equal percentage. A comparison of present and
4 proposed rates for each of the classes is provided in Exhibit __ (RGERARD-8).

5 Q. What specific rate design changes, if any, is the Panel proposing for every service
6 class?

7 A. For the purposes of this testimony and the exhibits, the customer charges do not
8 include the BIPP charge, which has been unbundled into a per-bill charge.

9 Q. What specific rate design changes is the Panel proposing for the SC-1 and SC-5
10 classes?

11 A. For SC-1 and SC-5 rates, the Company proposes to increase the customer charge
12 from the \$14.38 to \$22.81 per month. The MCOS study, which exhibits monthly
13 efficient customer charges ranging from \$82.51 for the SC5 Residential Non-Heat
14 class to \$911.27 for the SC1 Industrial class, supports this increase. As with
15 electric rates, although this increase does not move the customer charge to the
16 level indicated by the MCOS study, it does move it closer to that level, while
17 limiting the bill impacts on the lowest use customers through the use of the 125%
18 constraint as previously described. The Company proposes to increase the
19 volumetric block rates, using the methodology and constraints previously
20 described, to the amounts displayed in Exhibit __ (RGERARD-8).

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

22 A. For SC-3 rates, the Company proposes to increase the customer charge from
23 \$409.38 to \$649.31 per month. The MCOS study, which exhibits monthly

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 efficient customer charges for SC-3 customers ranging from \$2,877.18 to
2 \$5,057.09, supports this increase. As with the increase to the first block in SC-1
3 and SC-5 rates, this increase does not move the customer charge to the level
4 indicated by the MCOS study, but moves it in the right direction, while limiting
5 the bill impacts on the lowest use customers in this class through the use of the
6 125% constraint. The Company proposes to increase the volumetric block rates,
7 using the methodology and constraints previously described, to the amounts
8 displayed in Exhibit __ (RGERARD-8).

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

10 A. For SC-3 High Pressure service, the Company proposes to increase the customer
11 charge from \$879.38 to \$1,394.78 per month, which also moves the minimum
12 charge closer to the monthly efficient customer charge of \$2,254.65 while
13 maintaining the 125% constraint. The Company proposes to increase the
14 volumetric block rates, using the methodology and constraints previously
15 described, to the amounts displayed in Exhibit __ (RGERARD-8).

16 Q. Has the Company proposed any changes to the gas rates for Distributed
17 Generation Service?

18 A. Yes. The Company has four service classes for Distributed Generation ("DG")
19 Service: SC-6 Non Residential Distributed Generation Firm Sales Service < 50
20 MW; SC-7 Firm Gas Transportation Service for Distributed Generation Facilities
21 < 50 MW; SC-8 Residential Distributed Generation Firm Gas Sales Service; and
22 SC-9 Residential Distributed Generation Gas Transportation Service. The
23 original DG rates were designed in compliance with the Commission's December

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 23, 2003 Approved as Recommended and So Ordered and August 4, 2004 Order
2 Providing for Gas Service for Residential Distributed Generation in Case 02-M-
3 0515. The rates were developed based on the rates of existing residential and
4 non-residential service classes and adjusted for an increased load factor. The
5 Company is proposing to maintain the current relationships between the DG rates
6 and the rates of the non-DG service classes. The current and proposed rates for
7 these DG classes are displayed in Exhibit __ (RGERARD-8).

8 Q. Is the Company proposing any changes to the current gas Low Income program?

9 A. Yes, the Company is proposing the elimination of the HEAP-eligible non-
10 spaceheating discount, which consists of a \$9.19 reduction to the standard
11 SC1/SC5 customer charge, and instituting a new low income program as
12 discussed by the Customer Service Panel.

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

15 A. Exhibit __ (RGERARD-8) compares the present and proposed rates for each
16 service classification. Exhibit ____ (RGERARD-9) and Exhibit ____ (RGERARD-
17 10) illustrate the effect of the revenue increases on total bills and delivery-only
18 bills, respectively, for a range of usage levels.

19 Q. Is the Company proposing any other changes to gas rates?

20 A. Yes. The Company is proposing a modification to the Weather Normalization
21 Adjustment ("WNA") to eliminate the 2.2% deadband. Also, consistent with the
22 Energy Information Administration's decision to use a ten-year average for
23 normal weather and the Commission's June 22, 2009 Order Adopting

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Recommended Decision with Modifications in Cases 08-E-0887 and 08-G-0888,
2 the Company proposes to modify the WNA to be based on ten years of normal
3 weather, rather than the thirty years of normal weather currently used by the
4 Company.

5 Q. Why is the Company proposing to eliminate the 2.2% deadband?

6 A. The removal of the deadband would allow the WNA to capture the full impact of
7 weather variances on the Company's delivery revenues, thereby avoiding
8 unnecessary adjustments to the Revenue Decoupling Mechanism.

9 **COMPETITIVE SERVICE RATES**

10 Q. Does RG&E currently have unbundled rates for competitive services, as required
11 by the Commission in Case 00-M-0504 (the "End-State Proceeding - Unbundling
12 Track")?

13 A. RG&E has unbundled rates for competitive services currently in effect for
14 everything except electric supply procurement. Regarding electric service,
15 unbundled rates are in place for the BIPP and competitive metering. Regarding
16 gas service, unbundled rates are in place for supply procurement (referred to as
17 the MFC) and BIPP. RG&E has implemented these charges in accordance with
18 Commission orders in the End-State Proceeding - Unbundling Track, including
19 those related to unbundled cost of service and rate design and those related to the
20 unbundled bill format, and the Company's recent gas rate order (Case 03-G-0766).

21 Q. Is the Company proposing modifications to these competitive rates?

22 A. Yes. The Company is proposing to update the prices for these competitive
23 services, based on the results of the ECOS study. The ECOS Panel discusses the

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 development of the rates for competitive services and provides the unbundled
2 rates for these functions. The ECOS Panel also describes the reconciliation
3 proposals for the electric and gas MFCs and the process for updating the MFCs
4 for the compliance filing in this case. All applicable tariffs are updated with the
5 proposed unbundled rates.

6 Q. Why doesn't the Company currently have an electric MFC?

7 A. The Company has not yet completed a full rate unbundling for competitive
8 services. Pursuant to RG&E's current electric rate plan (Case 03-E-0765) and its
9 effective tariffs, RG&E provides a 4 mills/kWh Retail Access Credit ("RAC") to
10 customers taking service from an energy service company ("ESCO"), thus
11 creating a charge for delivery services that excludes the negotiated credit. The
12 majority of the dollars provided through the RAC are collected through a Retail
13 Access Surcharge ("RAS") on all customer load.

14 Q. How is the Company proposing to implement the electric MFC as part of this
15 proceeding?

16 A. RG&E would shift from a backout credit (i.e., the RAC) applied to bills of
17 customers who take supply from an ESCO to an unbundled charge applied to bills
18 of customers that take supply from RG&E. Consistent with providing updated
19 prices for currently unbundled services, as we discussed, the Company is basing
20 the electric MFC on the results of the ECOS study. The MFC will be applied to
21 the bills of customers that take electric supply from RG&E. Simultaneously, with
22 the implementation of the electric MFC, the RAS will be eliminated.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. Are there any cost recovery/credit issues associated with moving from the current
2 RAC/RAS mechanisms to the electric MFC?

3 A. Yes. The RAS, which is currently reconciled and reset annually, will likely have
4 an amount of over- or under-collected surcharge revenues deferred at the start of
5 the rate year. Consequently, as part of the elimination of the RAS, these dollars
6 would need to be collected or passed back through the MFC during the rate year.

7 Q. Are there any changes being proposed for the BIPP?

8 A. Yes. In the Iberdrola/Energy East merger proceeding (Case 07-M-0906), the
9 Staff Policy Panel recommended that the Company convert its BIPP charge from
10 a per-meter charge to a per-bill charge that is the same whether the customer is a
11 single commodity service customer or a dual electric and gas commodity service
12 customer. The Company's Rate Design and Retail Access Panel testified in that
13 proceeding that any conversion to a per-bill charge should be addressed in the
14 Company's next rate proceeding, because the proper forum for modifying
15 established BIPP costs and charges is when revenue requirements and rates are
16 reset. Accordingly, as supported by the testimony of the ECOS Panel, the
17 Company is proposing to update the BIPP charge to a per-bill charge.

ELECTRIC ECONOMIC DEVELOPMENT PROGRAMS

18
19 Q. What economic development rate incentives does the Company offer non-
20 residential electric customers?

21 A. The Company offers discounted rates for qualifying customers located in an
22 Economic Development Zone ("Empire Zone") that obtain Empire Zone
23 certification. These discounted rates are offered under RG&E's Empire Zone

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Rates ("EZR"). The Company also offers Empire Zone rates for customers that
2 were certified before January 1, 2005. The grandfathered rates are offered under
3 an Economic Development Zone Rider ("EDZ") and are a bundled supply and
4 delivery service. In addition to the EZR and EDZ rates, RG&E offers an
5 Incremental Load Rate ("ILR") service for customers within specific SIC codes
6 that add load to the system.

7 Q. Is the Company proposing any rate changes for these programs?

8 A. Yes, the Company is proposing new delivery rates for the EZR and ILR programs
9 based on the results of the MCOS study. The Company is not proposing changes
10 to its grandfathered EDZ program.

11 Q. How did the Company determine the EZR rates?

12 A. The Company applied the efficient prices from the MCOS study to the service
13 class billing determinants to calculate marginal delivery dollars and then
14 compared to the proposed base delivery dollars by service class. The marginal
15 dollars are used to develop EZR rates in all cases where the marginal delivery
16 dollars are lower than the proposed dollars at standard service class rates. This
17 results in EZR rates for SC-3, SC-7, SC-8 – Secondary, SC-8 – Primary, SC-8 –
18 Subtransmission-Industrial, SC-8 – Subtransmission-Commercial, SC-8 –
19 Transmission and SC-9. In the instances where the efficient prices resulted in
20 marginal delivery dollars that exceed proposed standard delivery dollars, no EZR
21 rates are proposed for the class. This situation occurs for SC-2 and SC-8-
22 Substation.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. Will current EZR customers be subject to the proposed rate changes?

2 A. Yes, the proposed rates reflect the Company's marginal costs and it is appropriate
3 and consistent with Section 66-12-c of the Public Service Law for customers with
4 Empire Zone certification to pay the marginal cost for their electric service.

5 Q. How did the Company determine the ILR rates?

6 A. The Company started with the proposed marginal delivery dollars and added a
7 contribution to the Company's fixed costs. The contribution was calculated by
8 taking fifty percent of the difference between the marginal revenue by service
9 class and the standard rate revenue.

10 Q. Will current ILR customers be subject to the proposed rate changes?

11 A. Yes. The existing ILR rates were based on marginal costs with a contribution to
12 fixed costs as are the proposed rates and it is appropriate that these customers'
13 rates reflect the current marginal cost for their electric service.

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

16 A. Exhibit __ (RGERARD-6) compares currently effective economic development
17 rates to those proposed herein for each service classification, based on the
18 methods described above.

19 Q. Is the Company proposing any electric Economic Development non-rate program
20 modifications?

21 A. No.

REVENUE ALLOCATION AND RATE DESIGN PANEL

GAS ECONOMIC DEVELOPMENT PROGRAMS

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Q. What economic development rate incentives does the Company offer non-residential gas customers?

A. The Company offers discounted rates for qualifying customers located in an Empire Zone that obtain Empire Zone certification. These discounted rates are offered under RG&E's EZR. The Company also offers Empire Zone rates for customers that were certified before January 1, 2005. The grandfathered rates are offered under an EDZ Rider.

Q. What, if any, change is the Company proposing for these programs?

A. The Company is proposing to discontinue the availability of EZR rates to customers that are located in Empire Zones and qualified for Empire Zone benefits after the effective date of new rates in this case. This will not impact any of the existing customers for the remaining term of their incentive. The Company is not proposing any changes to its grandfathered EDZ program.

Q. What is the basis for discontinuing the EZR incentive?

A. As was done for electric, the Company used the results of the MCOS study which produced efficient prices. The Company applied the efficient prices from the MCOS study to the service class billing determinants to calculate marginal delivery dollars and then compared those to the proposed base delivery dollars by service class. Because the marginal dollars for SC-1/SC-5 and SC-3 were greater than the proposed base delivery dollars, economic incentives are no longer appropriate.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. Is the Company proposing any gas Economic Development non-rate program
2 modifications?

3 A. No.

LOW INCOME PROGRAMS

5 Q. Is the Company proposing a Low Income program for its gas and electric
6 customers?

7 A. Yes, it is. The Company is proposing an enhanced Low Income program, which
8 is described in detail in the Customer Service Panel testimony. One aspect of the
9 enhanced program involves a monthly bill discount of \$15 per meter for
10 qualifying customers on their electric and/or gas service, as applicable.

11 Q. What are the total annual costs for bill discounts under the current Low Income
12 programs?

13 A. Under RECAP, residential electric customers receive annual bill discounts of up
14 to \$120 if they pay their bill in full and on time for one year. Under the I-HEAP
15 program, participating residential non-heating gas customers who receive HEAP
16 grants receive a reduced Basic Service Charges ("BSC") of \$5.81 per month.
17 Currently under RECAP, approximately 1,800 electric customers receive bill
18 discounts totaling \$216,000 annually (1,800 * \$120) per year. The current
19 enrollment in the I-HEAP is approximately 500 gas customers, receiving
20 discounts totaling \$55,000 annually (500 * \$9.19).

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. What are the proposed annual costs for bill discounts under the enhanced Low
2 Income program?

3 A. Under the enhanced Low Income program, the enrollment levels are anticipated to
4 approximate 36,400 electric customer meters and rate reductions are proposed to
5 increase to approximately \$6.6 million. On the gas side, the new program is
6 anticipated to include approximately 31,100 gas customer meters and rate
7 reductions are proposed to increase to approximately \$5.6 million.

8 Q. How will qualifying customers receive this benefit?

9 A. Customers actively enrolled in the enhanced Low Income program would be
10 billed all the normal service class charges and receive a \$15.00 discount per meter
11 per month on their bill. Today, the RECAP customer sees up to a \$120 bill credit.
12 The IHEAP customer sees only the reduced basic service charge on the bill, not
13 the standard basic service charge and the discount.

14 Q. How will the proposed retail delivery rates include the Low Income program
15 discounts?

16 A. As we previously discussed, the delivery revenue requirement associated with the
17 Low Income program discounts is collected from all customers in the proposed
18 service class base delivery rates. For electric, Exhibit __ (RGERARD-1) shows
19 the service classes billed on their full delivery rates, with the Low Income
20 program discounts as a line item below the service revenues identified as a
21 delivery adjustment. For gas, similar information is provided in Exhibit __
22 (RGERARD-7).

REVENUE ALLOCATION AND RATE DESIGN PANEL

STREET LIGHTING

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Q. Is the Company proposing any changes to its lighting tariff?

A. Yes, the Company is proposing five changes to its tariff provisions.

Q. What are the specific changes?

A. First, the Company is proposing to change the time for a lamp replacement stated in its Special Provisions section of its SC-1 service classification from one day to three days. The existing provision that provides the customer a credit for each night the lamp is not lighted after notification of the outage would remain.

Q. Why is the Company proposing this change?

A. The Company determined that three days is a more realistic goal to replace a lamp. The Company uses a third party lighting service for its lighting construction and maintenance. Given the geography of the Company's service territory and the fact that some towns are quite a distance from the lighting vendor's location, a 24-hour repair is often not achievable. Three days is also consistent with NYSEG's tariff provision.

Q. What is the second change?

A. The Company is proposing a fee for electrical point of connection for overhead service to its SC-2 service class. Currently only underground connection fees are listed. By adding this fee, the Company is better aligning cost recovery with costs causation as the specific customer connecting facilities would be charged for the connection.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. What is the third change?

2 A. The Company proposes a clarification to the description of specific Mercury
3 Vapor lamps, indicating that they are post top lamps.

4 Q. What is the fourth change?

5 A. The Company is proposing to update Special Provision 1d in SC- 2. The current
6 provision refers to a base cost of fuel and a fuel cost adjustment. The Company
7 seeks to remove this language from its tariff. Upon notification by the customers
8 and upon a determination that the outage is caused by an RG&E delivery
9 problem, the customer would be given a kWh credit accordingly. The credit
10 would begin after the Company is notified of the outage and would continue until
11 the Company has determined that the problem has been resolved. If the customer
12 is purchasing its supply from an ESCO, the kWh credit will be passed on to the
13 ESCO as well. RG&E will not supply a credit for outages caused by the
14 customer's equipment.

15 Q. What is the fifth change?

16 A. The Company proposes to eliminate its traffic signal service for new customers.
17 The Company will require new traffic signals to be metered and customers will be
18 served through the PSC No. 19 tariff. In addition, when current customers request
19 signals to be moved for highway construction or other reasons, the customer will
20 be reconnected with a meter and take electric service from the Company's PSC
21 No. 19. The Company will grandfather current SC-3 customers unless a signal
22 relocation is requested. Customers will be allowed to change their traffic signal

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 service to a metered service to the extent the Company can reasonably
2 accommodate the request.

PURCHASE OF RECEIVABLES

3
4 Q. Is the Company proposing any changes to its electric and gas Purchase of
5 Receivables ("POR") program?

6 A. Yes. The Company is proposing a change to the annual discount rate calculation
7 to apply the most recent twelve-month period of RG&E's actual uncollectibles
8 experience, rather than the five-year average that is currently in place. For
9 purposes of resetting the discount rates to become effective each January 1, the
10 Company would take write-offs for the most recent twelve months ended
11 September and divide by total sales revenues and purchases for the same period to
12 arrive at the new rate.

13 Q. Why is the Company making this proposal?

14 A. With this proposed change, the calculation better reflects the most recent activity
15 associated with uncollectibles. This change also makes RG&E's and NYSEG's
16 calculations consistent.

17 Q. When would the change become effective?

18 A. The change would become effective with the discounts applied on or after January
19 1, 2011.

20 Q. Is the Company proposing any other changes to the POR program?

21 A. No.

REVENUE ALLOCATION AND RATE DESIGN PANEL

SYSTEMS BENEFIT CHARGE

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Q. Is the Company proposing any changes to the way that the System Benefits Charge III program dollars ("SBC") are collected?

A. Yes. The Company proposes to move \$4.556 million of SBC dollars that are currently collected through base delivery rates, out of base rates and into the SBC surcharge.

Q. Why is the Company making this proposal?

A. By moving this portion of the SBC into the surcharge, the collection method is consistent with how the remaining SBC dollars are currently being collected, as well as all Renewable Portfolio Standard and Energy Efficiency Portfolio Standard collection shares. Additionally, given that the SBC program is fully reconciled on an annual basis, billing all dollars through the surcharge enhances the ability to track, measure, and audit over- and under-collections.

ELECTRIC BUYBACK SERVICE

Q. What is the Company's proposal for its SC-5 Buy-Back Service?

A. The Company seeks to change the payments to customers to reflect the market value of energy and capacity. The SC-5 buyback tariff will be modified to be made consistent with NYSEG's current SC-10 – Cogeneration or Small Power Production - Sale of Energy to the Corporation and proposed modification to the payment formula.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. How does the Company currently make payments to customers that qualify under
2 SC-5?

3 A. Payments are made on a set of fixed rates, based on historical prices, for energy
4 and/or capacity sales made to the Company by qualifying facilities.

5 Q. Please explain the proposed formula to reflect the market value of energy and
6 capacity.

7 A. Consistent with NYSEG's SC-10 buyback service, the market-based formula
8 values all generation at the NYISO Day Ahead prices. NYSEG's proposed
9 modification to the payment formula is to price any variance between the actual
10 and scheduled purchases at the NYISO Real Time Locational Based Marginal
11 Pricing. RG&E proposes to do the same.

12 Q. Is the Company proposing any other changes to the formula?

13 A. Yes. The Company is proposing to discount the payment by a fixed percentage.
14 The Company is also proposing to distinguish between generators that have
15 obtained a Point Identification Number ("PTID") and are bidding into the NYISO
16 and generators that have not obtained a PTID. The discount on the payment will
17 be lower for the generators that have obtained a PTID and are bidding into the
18 NYISO.

19 Q. Why has the Company proposed to discount the value of the energy payments?

20 A. The NYISO markets are set up to accommodate direct participation by generators.
21 The Company has discounted the energy payments to give generators an incentive
22 to sell directly to the NYISO.

REVENUE ALLOCATION AND RATE DESIGN PANEL

1 Q. Why is the energy value for the customers that have obtained a PTID and are
2 bidding into the NYISO discounted at a lower rate than the customers that have
3 not obtained a PTID?

4 A. Generators who have obtained a PTID are paid at the generator bus price.
5 Generators who have not obtained a PTID are paid at the zonal price. Generally,
6 the generator bus price is a discount to the zonal price. Because of this, the
7 generators without a PTID are discounted more.

8 Q. Are there any other changes to SC-5?

9 A. Yes, the Company is proposing to change the monthly charges paid for this
10 service. For generators that are not also taking SC-14 Standby Service but are
11 taking service under another service classification (and exempt from Standby
12 Service), the monthly customer charges will equal the Standby Service customer
13 charges.

DEFERRAL RECOVERY MECHANISM

14
15 Q. What is the Deferral Recovery Mechanism ("DRM")?

16 A. The Revenue Requirements Panel discusses the Company's proposal to implement
17 a DRM for electric and gas to return or collect deferred costs, reserve balances
18 and service and reliability revenue adjustments. The Company proposes to collect
19 the DRM amounts through a kWh or therm credit or surcharge, equally applicable
20 to all service classes. The DRM, which would be set each time threshold amounts
21 are exceeded, would be reconcilable and would be filed with the Commission
22 three days prior to the effective date. The tariff leaves presented by this Panel
23 include language describing this new mechanism.

REVENUE ALLOCATION AND RATE DESIGN PANEL

NEW GAS RELIABILITY SURCHARGE MECHANISM

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- Q. Is the Company proposing a new gas reliability surcharge?
- A. Yes. As discussed by the Electric and Natural Gas Supply Panel, RG&E is proposing a gas reliability surcharge to recover the costs associated with RG&E planning to retain pipeline capacity between 66 and 75 heating degree days on behalf of non-daily metered customers. This surcharge is similar to the one in place for NYSEG. The need for this new surcharge is discussed in the Electric and Natural Gas Supply Panel's testimony and the cost components on which the surcharge will be based are discussed in the ECOS Panel's testimony. The Company proposes to compute the surcharge using current costs at the time the compliance filing is made in this proceeding, and update the charge on a monthly basis thereafter.
- Q. How does RG&E plan to apply the surcharge?
- A. The Company will apply the surcharge to customers taking service from ESCOs under gas SCs-5, 7a and 9. The surcharge will be included in the Small Transportation Service Rate Adjustment Statement.

TARIFF MODIFICATIONS

- Q. Please discuss the modifications made to the Company's tariffs that are included with this filing.
- A. In addition to the proposed delivery rates, the Company has filed several revisions to its tariffs consistent with the proposals made herein and by other panels. An appendix is attached to the transmittal letter listing the leaves that have been revised by the Company.

REVENUE ALLOCATION AND RATE DESIGN PANEL

BILL FORMAT

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Q. Will the Company's bill format be modified to reflect the changes discussed above?

A. Yes. The bill format will be revised to incorporate new line items for the Revenue Decoupling Mechanism, the DRM and the electric MFC. Additionally, the bill format will be modified to reflect the bill discount for qualified Low Income program customers. Also, the new BIPP charge will be converted to a per-bill charge and will appear on the bill as a line item charge whether the customer is a single commodity service customer or a dual electric and gas commodity customer. The Company will provide to Staff a revised residential bill format for review prior to implementing the changes discussed above.

TRANSMISSION AND DISTRIBUTION UNBUNDLING

Q. Is the Company proposing to unbundled transmission and distribution in this proceeding?

A. No. However, transmission and distribution unbundling is the next logical step toward fully unbundled rates and is consistent with the Commission's electric restructuring decisions. The Company requests that the Commission direct Staff to engage in a dialog with the Company on this issue with the expectation that the Company will propose transmission and distribution unbundling in the future.

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

A. Yes, it does.