

BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
New York State Electric & Gas Corporation
for Electric Service
Case 09-E-0715

Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
New York State Electric & Gas Corporation
for Gas Service
Case 09-G-0716

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-0717

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-0718

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**REBUTTAL TESTIMONY OF THE
CAPITAL EXPENDITURES, RELIABILITY AND
OPERATIONS PANEL**

**Michael H. Conroy
Michael D. Eastman
Hugh J. Ives
Alan L. Matthews
Jeffrey L. McKinney
Kevin P. Sullivan
David C. Weiler**

February 12, 2010

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1 Q. Please state the names of the original members on this Capital Expenditures,
2 Reliability, and Operations Panel (“Panel” or “CRO Panel”).

3 A. We are Michael H. Conroy, Michael D. Eastman, Hugh J. Ives, Alan L. Matthews
4 and Jeffrey L. McKinney.

5 Q. Are you the same Panel members that sponsored the Direct Testimony of the
6 Capital Expenditures, Reliability, and Operations Panel on behalf of New York
7 State Electric & Gas Corporation (“NYSEG” or the “Company”) and the Direct
8 Testimony of the Capital Expenditures, Reliability, and Operations Panel on
9 behalf of Rochester Gas and Electric Corporation (“RG&E”) in this proceeding?

10 A. Yes, although David C. Weiler and Kevin P. Sullivan have joined the Panel.

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

12 A. My title is Manager, Systems Engineering. My business address is Corporate
13 Drive, Kirkwood Industrial Park, Binghamton, New York 13902.

14 Q. Please summarize your educational background.

15 A. I have a Bachelor of Science Degree in Electrical Engineering from Rensselaer
16 Polytechnic Institute and a Master’s Degree in Business Administration from
17 Binghamton University.

18 Q. Please describe your work experience.

19 A. I began working for NYSEG in 1977. Through 1994, I held various engineering
20 and supervisory positions in the distribution engineering department. From
21 February 1994 through April 1996, I worked as Engineering Manager in the
22 Company’s Ithaca Division. From April 1996 to March 1998, I was Manager,

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1 Budgets and Planning, in the Customer Service Business Unit. From March 1998
2 to February 2003, I was Manager, Transmission Engineering. In February 2003 I
3 was named Manager, Electric System Engineering, which now includes leading
4 the Company's engineering and asset management functions.

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

7 A. I previously testified before the Commission in Case 05-E-1222, the 2005
8 NYSEG Electric Rate Plan Extension proceeding.

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

10 A. My title is Manager, Maintenance Engineering. My current business address is
11 89 East Avenue, Rochester, New York 14649.

12 Q. Please summarize your educational background.

13 A. I have a Bachelor of Science Degree in Electrical Engineering Technology from
14 Rochester Institute of Technology.

15 Q. Please describe your work experience.

16 A. I was hired by RG&E in 1979. I worked as a Substation Electrician through
17 1988, at which time I was promoted to the position of Electric Substation
18 Foreman. I became a Maintenance Engineer in 1990 and served in that capacity
19 for 6 years. From 1996 to the present, I have served as Manager of Maintenance
20 Engineering responsible for the implementation and oversight of maintenance
21 programs for transmission and distribution substations and lines.

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

3 A. No, I have not previously testified in any other proceedings.

4 Q. Mr. Weiler and Mr. Sullivan, do you adopt the previously pre-filed testimony of
5 this CRO Panel?

6 A. Yes.

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

8 A. First, we will rebut limited aspects of the proposals of the New York State
9 Department of Public Service Staff ("Staff") Electric Infrastructure Panel and
10 Staff Gas Infrastructure Panel relating to NYSEG's and RG&E's capital
11 expenditure budgets. In this discussion, we also rebut Staff Witness Pause's
12 distribution vegetation management proposal, mileage-based vegetation
13 management metrics and revenue adjustment proposals. In addition, we rebut the
14 testimony of NUCOR Witness Radigan regarding the need to expedite the Auburn
15 345kV Source Project. Second, we address the Staff Gas Safety Panel's
16 recommendations regarding revenue adjustments related to gas safety measures.
17 Third, we rebut Staff Witness Pause's proposed electric reliability performance
18 mechanism, proposed definition of major storm costs, and related revenue
19 adjustments. Fourth, we address Staff Witness Morrell's testimony regarding
20 NYSEG's proposal to use Light Detection and Ranging ("LiDAR").

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1 Q. Is the Panel sponsoring any exhibits in support of its rebuttal testimony?

2 A. Yes. The Panel is sponsoring the following exhibits: Exhibit __ (CRO Rebuttal -
3 1), which is a comparison of the Companies' original proposals for both electric
4 and gas capital expenditures, the Staff Panel's position and this Panel's
5 recommendation for the Companies; Exhibit __ (CRO Rebuttal - 2), which is a
6 comparison of the Companies' original request for Electric and Gas Operations
7 and Maintenance ("O&M") expenditures, Staff's proposals and the Companies'
8 current position; Exhibit __ (CRO Rebuttal - 3), which is a table illustrating recent
9 reliability improvement by the Companies; and Exhibit __ (CRO Rebuttal - 4),
10 which is a compilation of Staff's response to the Companies' interrogatory
11 requests.

12 Q. Does the Panel accept Staff's adjustments to capital expenditures and to O&M?

13 A. We have accepted many of Staff's adjustments while rebutting certain other
14 adjustments.

15 Q. How is the Panel's rebuttal testimony organized?

16 A. For the convenience of the parties, the Administrative Law Judges, and ultimately
17 the New York State Public Service Commission ("Commission"), our rebuttal
18 testimony follows the order of presentation set forth in the testimony of the
19 relevant Staff witness panels.

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1 Q. Does the Panel have any preliminary comments concerning Staff’s testimony in
2 this proceeding?

3 A. The Companies were pleased with Staff’s conclusion that the Companies have
4 justified the need for the vast majority of the Companies’ proposed capital
5 expenditure projects. We are also appreciative of the Staff Panel’s continued
6 support for the Companies’ existing infrastructure replacement program, the
7 Transmission and Distribution Infrastructure Replacement Project (“TDIRP”).
8 TDIRP has been a very useful and effective program. Although the Company
9 accepts Staff’s rejection of the Grid Modernization Initiative (“GMI”) proposed
10 by the Company, we believe that network modernization remains an important
11 goal and that certain of the enhanced analytical tools the Companies are
12 developing will enhance the potential reliability benefits associated with TDIRP.

13 Q. Does the Panel disagree with Staff’s proposal to limit reliability-enhancing
14 vegetation management programs at NYSEG?

15 A. Yes. Although Staff recognizes the reliability benefits gained by implementation
16 and use of full cycle vegetation management programs, Staff’s testimony
17 inconsistently opposes NYSEG’s request for full cycle line clearing. The Staff
18 Panel makes this recommendation despite also seeking implementation of a one-
19 way reconciliation mechanism designed to ensure that all allocated vegetation
20 management funds are utilized by NYSEG for that purpose. Prohibiting NYSEG
21 from implementing the same reliability-enhancing vegetation management
22 programs in place at all other major New York utilities, while at the same time

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1 seeking to double the revenue adjustments faced by NYSEG should it fail its
2 reliability metrics creates a Catch-22 situation for NYSEG. To avoid this
3 outcome, NYSEG should be authorized to move to full cycle vegetation
4 management or the negative revenue adjustments for failure to achieve the
5 reliability metrics should be reduced.

6 Q. Does the Panel have any other general reactions to Staff's positions?

7 A. While we are pleased that Staff has agreed to the vast majority of the individual
8 capital projects proposed by the Companies, we are concerned that Staff's project-
9 by-project review could represent the first step toward a serious erosion of utility
10 management flexibility. We do not object to Staff reviewing individual capital
11 projects, but the Companies' capital budgets are necessarily determined using an
12 aggregation of all potential projects. Thus, the timing, scheduling and
13 prioritization of those individual projects ultimately must remain a utility
14 management function, just as ultimately reliability is management's
15 responsibility. In addition, Staff's agreement to the Company's proposals should
16 not be understood to mean that any individual project included in the capital
17 budgets approved in these rate cases must be built at the estimated cost or in the
18 estimated time. Should the cost of a particular project ultimately exceed its
19 originally forecasted budget, the Companies must have sufficient flexibility in
20 capital funding to complete the project, subject to future Commission review of
21 the Companies' overall capital expenditure budgets. It is also likely that the
22 Companies will need flexibility as a result of unexpected capital funding

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1 requirements related to unforeseen circumstances, such as sudden customer load
2 addition or a new and imminent reliability need.

STAFF ELECTRIC INFRASTRUCTURE PANEL

3
4 Q. Can you briefly explain the Staff Electric Infrastructure Panel's adjustments to
5 reduce NYSEG's and RG&E's rate year average electric net plant and the Staff
6 Panel's proposed rate year Transmission and Distribution ("T&D") incremental
7 O&M expense levels?

8 A. The Staff Electric Infrastructure Panel proposes to reduce NYSEG's electric net
9 plant by \$32.356 million and RG&E's by \$5.865 million. The Staff Panel also
10 recommends various adjustments that reduce NYSEG's and RG&E's proposed
11 O&M expense levels by \$32.371 million and \$6.388 million, respectively.

12 Q. Having reviewed the Staff Panel's capital expenditure adjustments, can you
13 identify the most significant differences that remain between Staff and the
14 Companies on capital expenditures?

15 A. Yes. Exhibit __ (CRO Rebuttal - 1) sets forth a comparison of the Companies'
16 original proposals for both electric and gas capital expenditures, the Staff Panel's
17 proposals and what this Panel now recommends for the Companies.

18 Q. Has the Panel prepared a similar exhibit for T&D incremental O&M expense
19 levels?

20 A. Yes. Exhibit __ (CRO Rebuttal - 2) sets out the Companies' original proposals
21 for Gas and Electric T&D incremental O&M expenditures, Staff's proposals and
22 the Companies' current positions.

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NYSEG'S Major Distribution Capital Projects

1
2 Q. What adjustments did the Staff Electric Infrastructure Panel propose to NYSEG's
3 major transmission projects, including the Ithaca Reinforcement Project, the
4 Corning Valley Upgrade, and the Klinekill-Valkin New 115kV Transmission
5 Line?

6 A. We are pleased that the Staff Panel made no adjustments and concluded that the
7 Company had fully justified the need for these major projects.

8 Q. Did Staff adjust the Company's proposal for the Belleayre Substation Project?

9 A. Yes.

10 Q. Does this Panel accept Staff's adjustment regarding the Belleayre Substation
11 Project?

12 A. Yes.

13 Q. Can the Panel please comment on NUCOR Witness Radigan's proposal that
14 NYSEG expedite completion of the Auburn 345kV Source Project?

15 A. The Company disagrees with Mr. Radigan's suggestion of expediting the Project.
16 We agree, however, that the Project will reduce the Company's dependence on
17 aged National Grid 115kV transmission lines, increase the short circuit capability
18 of the area, thereby reducing voltage flicker caused by NUCOR's electric arc
19 furnaces, and reduce the Company's reliance on AES fossil generation when
20 completed.

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1 Q. What are the Company's plans for construction of the Auburn 345kV Source
2 Project?

3 A. The Company projected in Exhibit __ (NYSEG CRO-3), page 1 of 47, that the
4 Auburn 345kV Source Project would be in service on December 31, 2016.

5 Q. Does NUCOR Witness Radigan propose an alternative in-service date?

6 A. No. Mr. Radigan merely suggests that the timeline for construction be
7 accelerated.

8 Q. What does Witness Radigan provide as a basis for the project's acceleration?

9 A. NUCOR's witness claims that the need for the Auburn 345kV Source Project is
10 similar to the facts in Case 05-E-1222, where the Company was ordered to move
11 forward with construction of the Ithaca Transmission Project as a result of
12 ongoing load pocket issues in the Ithaca area.

13 Q. Is the Auburn area a Load Pocket?

14 A. No. Auburn is a high load area that is distant from a strong power source. While
15 the situation in Auburn warrants system reinforcement in the future to ensure
16 reliability, there are no generation sources in the area that have the possibility of
17 wielding market power – the definition of a Load Pocket. The Auburn 345kV
18 source Project is therefore not at all similar to the Ithaca Transmission Project.

19 Q. Are there any other differences between the Auburn 345kV Source Project and
20 the Ithaca Transmission Project?

21 A. The Ithaca Transmission Project was also ordered to be constructed due to the
22 Company's inability to serve all area loads for the condition when the AES

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1 Cayuga generation was retired. There are no current generation retirements
2 occurring in Auburn. In fact, the addition of the Ithaca Transmission Project
3 reduces the impact of the AES generation retirement on the Auburn area.

4 Q. Does NUCOR Witness Radigan propose any other conditions on the Auburn
5 345kV Source Project?

6 A. Yes. He proposes that, similar to the Ithaca Transmission Project, the
7 Commission take on managerial responsibility for the Company's capital
8 spending to establish priorities, milestones, and periodic reporting requirements
9 for the project.

10 Q. Does the Panel agree with these conditions?

11 A. No, we do not agree with these conditions. Mr. Radigan provides no reasonable
12 argument for requiring acceleration or strict oversight of the Auburn 345kV
13 Source Project. The Company should not expedite the planning and construction
14 of the project and file semi-annual reports on its progress in planning, permitting,
15 and constructing this project. Instead, the project should proceed on-schedule via
16 the Company's normal capital project planning process and should not be
17 expedited ahead of other scheduled projects with more immediate needs.

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NYSEG’S Major Distribution Capital Projects

1
2 Q. Did the Staff Electric Infrastructure Panel propose any adjustments to NYSEG’s
3 Yawger Road Substation Construction Project and Capacitor Addition-Energy
4 Efficiency Project?

5 A. No. We are pleased with the Staff Panel’s conclusion that the Company has
6 justified the need for these major distribution capital projects.

7 Q. What is the 34.5kV Biogas Collector System Project?

8 A. It includes the installation of 34.5kV distribution lines above the existing 12kV
9 lines in two separate areas where biogas digesters are likely to be located. Staff
10 supports the Company’s concept and design for the Project but has proposed a
11 specific condition on NYSEG’s capital investments in the Project.

12 Q. What capital expenditure conditions has Staff imposed on the Biogas Collector
13 System Project?

14 A. Staff has proposed that at least half of the identified biogas digester
15 interconnection projects, at each of the two phased locations, must have submitted
16 official application forms to NYSEG per the New York State Standardized
17 Interconnection Requirements (“SIR”) and that NYSEG have approved the
18 projects for interconnection before any capital expenditures can be made. This
19 condition is unworkable from a practical perspective because the Company cannot
20 identify in advance where, when, or how much loading would be added to the
21 existing distribution system as a result of a particular project. While this Panel
22 shares Staff’s concerns that expenditures on this Project should not proceed

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1 without justification, Staff's proposed condition does not allow for consideration
2 of critical factors such as project size, location of project, and circuit
3 interconnection options that may require capital expenditures on the project to be
4 initiated. Staff's condition may also interfere with the ability of NYSEG to meet
5 the mandated deadlines related to the interconnection of a generator.

6 Q. What does this Panel propose instead of Staff's 50% condition?

7 A. We propose that the Company be allowed to evaluate each project and its
8 progress based on engineering and economic considerations and then determine
9 the best time to initiate the 34.5kV Biogas Collector System Project. This
10 approach provides NYSEG with sufficient flexibility to support New York State's
11 efforts to encourage utilization of dairy farm waste to reduce negative impacts on
12 air and water resources, while generating renewable energy.

13 Q. The Staff Infrastructure Panel at pages 36-38 of its testimony opposed the
14 Company's proposal for the New South Park Substation Transformer Project,
15 claiming that the need and justification for replacing this transformer are both
16 insufficient. Staff's opposition to the Project appears to be based on the fact that
17 the loadings cited do not exceed the planned loading beyond nameplate ("PLBN")
18 value for the transformer currently in service. Do you agree with Staff's
19 assessment and position?

20 A. No. We disagree with Staff's assessment because it only considered the average
21 annual peak load growth on this transformer without considering load growth in
22 the area. Staff also did not consider the strategic approach the Company is

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1 proposing to redistribute load from adjacent substations, such as Armor Sub, to
2 facilitate better utilization of infrastructure in the area. Growth in this area is
3 forecast to be 2% based on transmission estimates. According to the response to
4 IR NYSEG-RGE-121, Staff discounted this assumption because it felt the
5 Company “did not provide any information or supporting documentation of any
6 substantial load growth in the area.” In the Company’s response to IR NYRC-
7 0267, the Company provided information showing loadings on both Armor Sub
8 and South Park Sub, discussed the inability to transfer significant blocks of load,
9 and specifically referenced an anticipated additional 800 kVA of load pending.
10 Not specifically mentioned, but also considered in the planning for this area were
11 requests to serve a 500 kW load addition for the Franciscan Sisters’ Convent new
12 retirement home and a 2000 kW load for the Erie County Video Slots and
13 Gambling Complex. With these factors included in the assessment, the New
14 South Park Substation Transformer Project should be allowed in order to avoid
15 negatively impacting reliability in the area.

16 Q. Does the Staff Electric Infrastructure Panel support the Company’s Mobile
17 Substation Project in its entirety?

18 A. No. Staff only supported the acquisition of the first two out of five Mobile
19 Substations sought by the Company, at a cost of \$6.978 million in 2010. Staff
20 opposed the acquisition of three additional units scheduled for the years 2011
21 through 2013.

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1 Q. Do you agree with Staff's position regarding Mobile Substations?

2 A. No. Full funding for a proactive, planned replacement program for three
3 additional Mobile Substations should be allowed for the years 2011 through 2013.
4 The three units the Company seeks to replace have an average age of 52 years.
5 As a result, replacement parts for the units are unavailable. The existing units are
6 inadequate for the load growth that has taken place over the last 52 years. The
7 three Mobile Substations are sufficient to cover less than 24% of the NYSEG
8 distribution transformers for emergencies and preventative maintenance. The
9 replacement Mobile Substations would have higher MVA capacity and additional
10 operating voltages that would make their utilization much greater, increasing the
11 ability to back up approximately 78% of distribution transformers, of which 57%
12 are at least 50 years old. While the addition of two Mobile Substations proposed
13 by the Company and accepted by Staff would increase the existing overall
14 coverage, it remains insufficient from an operations perspective.

15 Q. Will the additional Mobile Substations sought by the Company enhance
16 reliability?

17 A. Additional Mobile Substations are needed to maintain the Company's high level
18 of reliability. NYSEG's and RG&E's Customer Average Interruption Duration
19 Index ("CAIDI") numbers are directly related to the availability of a full fleet of
20 top rated, strategically located, Mobile Substations that will provide the
21 Companies with proactive-preventative maintenance and failure response
22 capabilities.

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NYSEG'S Common Capital Projects

1
2 Q. Did the Staff Electric Infrastructure support the Company's proposed common
3 capital projects?

4 A. Yes, with the exception of the Mobile Radio Project. The Staff Revenue
5 Requirements Panel sets forth various challenges to NYSEG's proposal for the
6 Mobile Radio Project.

7 Q. Is this Panel addressing Staff's proposed adjustment for the Mobile Radio
8 Project?

9 A. No. The Companies' Revenue Requirements Panel demonstrates why Staff's
10 proposed adjustment for the Mobile Radio Project should be rejected.

RG&E'S Major Transmission Projects

11
12 Q. Are there any areas of disagreement between RG&E and Staff regarding RG&E's
13 Major Transmission Projects?

14 A. No. We are pleased with the Staff Panel's conclusion that the Company has
15 justified the need for the proposed projects.

RG&E'S Major Distribution Capital Projects

16
17 Q. The Staff Electric Infrastructure Panel proposed an adjustment to the Company's
18 Station 416 Project. Do you agree with the adjustment?

19 A. Yes, with the caveat that the project contribution amounts from Rochester
20 Institute of Technology ("RIT") have not yet been finalized. Under Staff's
21 proposal, the ratepayers would bear only \$1.46 million of the cost of the project,
22 with RIT bearing the remaining \$1.78 million of the project's estimated total cost

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1 of \$3.188 million. To the extent that the contribution amounts from RIT assumed
2 in Staff's adjustment do not occur, the Company should be made whole for any
3 funds it expends on the project.

4 Q. Do you accept the Staff Electric Infrastructure Panel's proposed elimination of the
5 Company's Station 246 Project?

6 A. Yes. Although the project would improve reliability, we accept Staff's proposed
7 \$5.5 million adjustment.

8 **RG&E'S Common Capital Projects**

9 Q. Are there any open areas of disagreement between the recommendations of this
10 Panel and the Staff Panel regarding RG&E's Common Capital Projects?

11 A. No. We are pleased that the Staff Panel accepted these projects.

12 **RG&E'S Major Generation Production Projects**

13 Q. Did the Staff Panel have any objection to RG&E's major generation production
14 projects?

15 A. No. We appreciate the fact that Staff found these projects reasonable.

16 **Companies' Grid Modernization Initiatives ("GMI")**

17 Q. Did this Panel originally propose a GMI?

18 A. Yes. The Companies believe that grid modernization remains an important goal.
19 The Companies' GMI was intended to allow the Companies to replace and update
20 facilities to enhance the safety, reliability and operability of their electric
21 transmission and distribution systems. This program was intended to build upon
22 the Companies' successful TDIRP.

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1 Q. Does the Staff Panel support the Companies' proposed GMI?

2 A. No. Staff believes that GMI should not be adopted at this time. Instead, Staff
3 recommends continuation of TDIRP.

4 Q. Do the Companies accept Staff's proposal to maintain TDIRP at a level of
5 \$25 million for NYSEG and \$15 million for RG&E on an annual basis while
6 denying GMI funding?

7 A. The Companies can accede to Staff's proposal at this time and certainly
8 appreciate Staff's support for continuation of TDIRP, which has been a very
9 successful program at the Companies.

10 Q. What was the objective of the Companies' TDIRP?

11 A. TDIRP was planned by the Companies to replace equipment proactively to
12 improve reliability by reducing equipment failures.

13 Q. What benefit has been garnered so far through operation of the Companies'
14 TDIRP?

15 A. Since the inception of TDIRP programs at the Companies, customers have
16 benefited from a decreasing trend in customer hours of outage due to equipment
17 problems.

18 Q. Are there any analytical tools recently developed by the Companies that might be
19 used to enhance the selection of projects for TDIRP?

20 A. Yes. The Companies have been working extensively to refine their equipment
21 replacement selection criteria with a goal of proactively addressing modernization
22 to enhance the safety and reliability of the Companies' electric systems.

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1 Consideration should be given in the selection of projects for TDIRP to an
2 evaluation of the benefits of a variety of alternatives for improving system
3 operability beyond age, including: i) employing new technologies to better
4 monitor and control the T&D system and to improve or expand system
5 automation; ii) installing additional circuit sectionalizing and reducing the number
6 of circuits that are radial feeds; iii) improving the capacity of alternative feeds to
7 existing substations or circuits; iv) employing voltage conversions and re-
8 conductoring existing circuits to reduce losses; and v) installing new or expanded
9 security systems and equipment to “harden” important portions of the T&D
10 system.

Companies’ Electric Geographical Information System (“GIS”)

12 Q. What is the primary purpose of the Companies’ proposed GIS?

13 A. The Companies propose to implement GIS to improve their outage analysis
14 capabilities. The specific goals of the system are prioritized as follows: first,
15 improved outage analysis capabilities; second, an enhanced mapping solution and
16 enterprise platform for GIS; third, position GIS; and fourth, support for the
17 Outage Management System for Advanced Metering Infrastructure (“AMI”).

18 Q. Does Staff support the Companies’ GIS proposal?

19 A. No. Staff testifies that the Companies should simply purchase and implement
20 data presentation software used by other utilities in New York instead of GIS.

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1 Q. Does the data presentation software recommended by the Staff Panel eliminate
2 the need for the GIS project?

3 A. No. Staff's recommendation would require that NYSEG and RG&E implement
4 Staff's recommendations for outage maps without the replacement of the
5 Companies' existing Smartmap system. The Department of Public Service Office
6 of Consumer Policy's outage recommendations regarding enhancement of
7 websites, location maps and better restoration time estimates could be
8 accomplished with a consultant and associated data presentation software (i.e.,
9 i-factor consulting storm center software). However, the acquisition and
10 implementation of new data presentation software cannot enhance the
11 Companies' quality of data and therefore the ultimate quality of the outage
12 duration predictions. The Companies' proposed GIS would improve both data
13 quality and usefulness.

14 Q. Please explain further why the GIS is needed to provide accurate outage
15 information to the Companies' customers via the web.

16 A. Due to limitations inherent in obsolete underlying technology, the Companies
17 cannot scale their current Smartmap application to meet the dynamic switching
18 functionality that is needed to improve the quality of outage management data
19 available to the Companies for presentation on the web. The existing systems
20 lack the flexibility to model real-world restoration events, frequently resulting in
21 an over-prediction of the numbers of customers affected in many storm situations.
22 At present, manual intervention is required to analyze information stored in

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1 NYSEG and RG&E's Smartmap system to accurately represent outages on the
2 web. As a result, the Companies' outage information cannot automatically appear
3 on the Companies' websites for customer access and information.

4 Q. Have the Companies performed a thorough evaluation of the costs associated with
5 an update of Smartmap rather than a new system?

6 A. Yes. As we testified previously, Smartmap is technologically limited and cannot
7 be updated to properly provide the data required for outage maps and estimated
8 restoration time data to be presented on the web. The new GIS solution proposed
9 by the Companies would provide improved data gathering and other outage
10 management tools that would allow greater flexibility when modeling the electric
11 system (dynamic modeling, cut-ins, underground). This new functionality would
12 improve predictive outage capabilities and position the Companies to share the
13 most accurate outage information available quickly with customers via the web.

14 Q. What is the Staff Panel's conclusion related to the goals of the Companies'
15 proposed GIS project?

16 A. Staff reviewed the Smartmap Decision Recommendation developed by the
17 Companies and provided it as an attachment to the Companies' response NYRC-
18 0273. The Staff Panel incorrectly surmised from this material that the primary
19 benefit of the proposed GIS is its use with AMI. Although future compatibility
20 with AMI is one of several proposed GIS benefits, that compatibility is not the
21 only benefit, nor is it the primary reason that replacement of the Smartmap system
22 is proposed. The executive summary of the Companies' Smartmap Decision

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1 Recommendation states, “[t]he Arc FM solution is the best fit for meeting the
2 needs of the company today and providing a foundation for the future.” The
3 primary reason for replacing Smartmap is identified as the fact that the new
4 solution will provide a common, more robust Outage Management System
5 (“OMS”). The OMS functionality includes dynamic switching and the ability to
6 configure outage algorithms at the Company and region level (or other defined
7 level) for use during storms. The Smartmap Decision Recommendation also
8 notes that a new solution will improve the integrity of “our system generated
9 outage predictions and provide the foundation for providing real time outage
10 maps on the Web for our customers.”

11 **NYSEG’S Distribution Vegetation Management Program**

12 Q. What Distribution Vegetation Management Program did NYSEG propose?

13 A. NYSEG proposed a full cycle distribution vegetation management program with
14 an annual cost of \$36.2 million, an increase of \$25.3 million over the test year
15 expenditure level.

16 Q. What is a full cycle vegetation management plan?

17 A. A full cycle distribution vegetation management plan would allow the Company
18 to perform vegetation management on all of the Company’s 3-phase, 34.5kV
19 distribution circuits over a three year period and on the remainder of the
20 Company’s 3-phase and single-phase distribution circuits over a five year period.

**REBUTTAL TESTIMONY OF THE CAPITAL EXPENDITURES,
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1 Q. Would NYSEG be unique in having in place a “full cycle” plan?

2 A. No, as the Staff Panel acknowledges, every other major utility in New York with
3 the exception of RG&E, for whom Staff has accepted a request to move to a full
4 cycle program, already has a full cycle distribution vegetation management
5 program in place.

6 Q. Would the Company’s proposal to implement full cycle vegetation management
7 reduce vegetation-caused operational issues?

8 A. Yes.

9 Q. Did the Staff Electric Infrastructure Panel agree with the Company’s full cycle
10 distribution vegetation management proposal?

11 A. No. Instead, Staff has proposed to fund NYSEG’s Distribution Vegetation
12 Management Program at a level \$5.1 million above NYSEG’s test year
13 expenditure, for a total allocation of \$16 million.

14 Q. Are there any other components to Staff’s proposal for NYSEG?

15 A. Yes. Staff also recommends a one-way reconciliation or adjustment mechanism
16 whereby any funds allocated for, but not yet spent on vegetation management
17 would be returned to NYSEG’s ratepayers.

18 Q. Is this reconciliation mechanism appropriate?

19 A. No. Full two-way reconciliation is the appropriate mechanism, as we will address
20 in more detail in our discussion of RG&E’s vegetation management.

**REBUTTAL TESTIMONY OF THE CAPITAL EXPENDITURES,
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1 Q. Has Staff offered any explanation of why it rejected NYSEG’s proposal to
2 implement full cycle clearing?

3 A. Staff appears to be focused on NYSEG’s historical spending levels, in the context
4 of the rates set in Case 05-E-1222. Staff also expresses concern about the
5 incremental cost necessary to achieve full cycle distribution vegetation
6 management.

7 Q. Are past vegetation management spending levels, compared to amounts
8 previously allowed in rates, a valid reason to not adopt full cycle distribution
9 vegetation management on a going forward basis?

10 A. No, particularly if the Staff Panel’s proposed one-way reconciliation mechanism
11 is adopted. Under that mechanism, any alleged “under-spending” on distribution
12 vegetation management would be returned to ratepayers.

13 Q. Does the Staff Panel acknowledge on page 73 of its testimony that a full cycle
14 tree trimming program would improve overall reliability on the system?

15 A. Yes.

16 Q. Would improvements in the overall reliability of the system better position the
17 Company to meet its current and proposed reliability metrics?

18 A. Yes, such improvements would better position the Company.

19 Q. Despite acknowledging the reliability benefits of full cycle vegetation
20 management programs, what is the Staff Panel’s proposal?

21 A. The Staff Panel recommends on page 73 of its testimony “a smaller, incremental
22 approach to achieving full-cycle tree trimming.”

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1 Q. What time period or increment has Staff identified to bring NYSEG to the same
2 full cycle distribution vegetation management program authorized or
3 recommended for every other utility in New York?

4 A. It is unclear when or even if NYSEG customers would get the reliability benefits
5 of full cycle distribution vegetation management since the Staff Panel has not
6 identified the end point of its “incremental” approach.

7 Q. Does the Staff Panel place any other limits on how NYSEG can spend the amount
8 allocated for distribution vegetation management?

9 A. Yes. NYSEG would be required to clear 600 miles of its 34.5kV system; 1300
10 miles of its non-34.5kV, 3-phase system; and 800 miles of its non-34.5kV,
11 1-phase system per year.

12 Q. Would this limitation negatively impact NYSEG’s ability to attain its reliability
13 targets?

14 A. Yes. The specific mileage and voltage class limitation could have a negative
15 impact on reliability. While NYSEG’s current guidelines focus its partial cycle
16 effort on circuits where customer density is greatest, it also allows for the clearing
17 of single phase circuits on an as-needed basis to address issues of safety,
18 reliability and/or customer satisfaction. If NYSEG were mandated to clear a
19 specified number of 3-phase miles per year, regardless of other needs on the
20 system, it is possible that the Company would be able to clear fewer miles of
21 single phase lines.

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- 1 Q. Can you please elaborate on why the Staff Panel’s proposal to specify vegetation
2 management expenditures for specific voltages and circuits could negatively
3 impact reliability?
- 4 A. The Staff Panel’s proposal would limit the Company’s flexibility in managing its
5 vegetation management program to focus line clearing activities where they are
6 most needed. In addition, NYSEG relies on a competitive bidding process to
7 ensure that market prices are paid for circuit clearing work. Qualified line
8 clearance contractors are requested to submit a number of lump sum prices on the
9 targeted circuits during the year. The work is usually awarded to the low bidder.
10 The lump sum bids are based on the difficulty of the work (i.e., the time it will
11 take to complete and the specialized equipment required), and on the contractors’
12 labor and equipment costs. These costs can vary based upon current market
13 situations such as labor availability (local versus out of town; in-state versus out
14 of state) and equipment and fuel costs. As a result, the price of clearing work
15 varies over time as market conditions change. Therefore, requiring completion of
16 a set number of miles based on assumptions about cost that are made a long time
17 before the work is to occur is problematic. In addition to concern about the
18 overall mileage requirement, Staff’s proposed requirement to clear a certain
19 mileage of circuits in a given voltage class and phase could preclude work on
20 other circuits not on cycle, even if clearing the other circuits is projected to have a
21 greater positive impact on reliability. NYSEG should retain flexibility to choose

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1 which circuits to clear, so that the Company's ultimate goal of enhanced
2 reliability can be achieved at the lowest cost.

3 Q. Do you agree with the spending level by voltage class Staff selected?

4 A. No. If the actual cost of line clearing work for a particular voltage class turns out
5 to be higher than the assumed cost utilized by Staff, NYSEG would be unable to
6 achieve the mileage targets for that voltage class referenced in Staff Witness
7 Pause's testimony. In other words, NYSEG's ability to meet the targets would be
8 outside of its control and subject to pure market forces.

9 Q. Does the Company have an alternative proposal to the Staff Panel's mileage-
10 based approach to vegetation management?

11 A. Yes. NYSEG proposes the adoption of a full cycle program, including a two-way
12 reconciliation mechanism. Under such a reconciliation mechanism, ratepayers
13 would be protected in the event the Company did not spend the full amount
14 included in rates for vegetation management. Should the Company spend more
15 on vegetation management, it would be able to recover that cost in rates.

16 Q. Is Staff's treatment of vegetation management programs and reliability targets
17 inconsistent?

18 A. Yes. The Staff Electric Infrastructure Panel acknowledges the close link between
19 vegetation management and system reliability, noting that tree contacts are
20 regularly one of the largest factors contributing to outages. Yet, inconsistently,
21 the Staff Panel recommends denial of NYSEG's proposal to enhance its tree
22 trimming program. It is also inconsistent to deny NYSEG sufficient funding to

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1 implement the full cycle vegetation program authorized for all other major
2 utilities and at the same time support Staff Witness Pause’s proposal to double the
3 revenue adjustments or penalty NYSEG faces for non-attainment of reliability
4 standards (Customer Average Interruption Duration Index (“CAIDI”) and System
5 Average Interruption Frequency Index (“SAIFI”)).

6 Q. In what other way is the Staff Panel’s rejection of NYSEG’s request for full cycle
7 vegetation management program inconsistent?

8 A. The same Staff Panel agreed with RG&E’s position that a full cycle program is
9 needed for RG&E and recommended that sufficient vegetation management
10 funding should be provided to RG&E for this purpose. Staff provides no
11 compelling rationale for treating NYSEG in a manner that differs from how the
12 Commission treats RG&E and every other major utility in the state.

13 Q. Has Staff proposed a new reliability performance metric focused solely on
14 vegetation management?

15 A. Yes. Staff Witness Pause proposes an additional reliability performance
16 mechanism and associated negative revenue adjustments that would penalize
17 NYSEG for failure to complete clearing of a specified minimum number of circuit
18 miles per voltage class of the distribution system on an annual basis. Staff
19 Witness Pause’s Exhibit RPM-2 specifies the minimum number of miles that
20 must be achieved for specific voltage classes and the associated base revenue
21 adjustment if the requirements are not met.

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1 Q. Do allocation of mileage by voltage class and imposition of base revenue
2 adjustments for not meeting the mileage represent micromanagement of the
3 Company's vegetation management efforts?

4 A. Yes, to an unprecedented degree. To meet the proposed metric, NYSEG would
5 not be able to flexibly identify those circuits that require more attention and focus
6 on them.

7 Q. How did Staff calculate the minimum number of miles that it set as the metric?

8 A. It appears that the 34.5kV, 3-phase and non-34.5kV 3-phase thresholds are set to
9 roughly equate to a 3 year cycle for 34.5kV; a 5 year cycle for non-34.5kV
10 3-phase; and a 25 year cycle for non-34.5kV 1-phase. We can discern no support
11 for the threshold selected for non-34.5kV, 1-phase mileage.

12 Q. Do you agree with either the mileage clearing metrics or the revenue adjustment
13 proposed by Staff Witness Pause?

14 A. No. As we testified previously, the mileage being put forth as the sole standard
15 completely ignores the fact that cost of distribution vegetation management at
16 NYSEG is determined by competitive bidding and market forces, as contractors
17 perform the bulk of the work. If market prices increase, a factor beyond
18 NYSEG's control, NYSEG will not be able to clear as many miles within the
19 fixed allocation or allowance of available vegetation management funding for
20 each voltage class. Staff also failed to provide any basis or justification in support
21 of the level of negative revenue adjustments proposed.

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1 Q. Did this Panel earlier suggest the possibility of a metric for vegetation
2 management?

3 A. We did acknowledge that possibility. However, any reasonable targets adopted
4 must have an adjustment mechanism to reflect changing market prices for
5 clearing work, such that the mileage requirement would be waived if the full
6 allocation for vegetation management overall or for a specific voltage class were
7 expended, and a reasonable linkage to any proposed revenue adjustment.

8 **RG&E'S Distribution Vegetation Management Program**

9 Q. What type of distribution vegetation management program did you propose for
10 RG&E?

11 A. We proposed a full cycle distribution tree trimming program that would cover all
12 3-phase and single-phase circuits over a three to six year period depending upon
13 circuit voltage, at an annual cost of \$6.6 million.

14 Q. Did the Staff Electric Infrastructure Panel support this Company Proposal?

15 A. Yes. In supporting RG&E's proposal Staff noted that tree contacts are regularly
16 one of the largest factors contributing to outages at RG&E.

17 Q. Does the Panel agree with Staff's proposed one-way reconciliation mechanism for
18 vegetation management for RG&E?

19 A. No. We oppose implementation of that mechanism at either NYSEG or RG&E.
20 The Staff Panel seeks to impose the new condition that if the Companies do not
21 spend the entire amount allowed in rates for vegetation management, the

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1 difference between the actual amounts under-spent and the rate allowance would
2 be deferred for future ratepayer benefit at the conclusion of the rate year.

3 Q. Does the Staff Panel provide any justification for such a one-way reconciliation?

4 A. No. In fact, the Staff Panel notes that RG&E has not failed any of its corporate
5 reliability performance mechanisms in several years and that it historically has
6 spent in line with or only slightly under the budgeted tree trimming amounts.

7 Q. Other than the fact that Staff has provided no justification for a new reconciliation
8 mechanism, why do you oppose such a new condition?

9 A. First, the reconciliation is only one-way. It does not protect the Company if it
10 determines that additional funds must be spent on tree trimming. Second, the
11 one-way reconciliation micromanages the utility and removes management
12 discretion and flexibility. Taken to its logical end, the Commission would
13 mandate the amount to be spent and the miles of clearing to be performed. As a
14 practical result of this type of mandate the Commission would assume full
15 responsibility for vegetation management, making all negative revenue
16 adjustments associated with vegetation management inapplicable.

17 Q. Is a two-way symmetrical reconciliation mechanism appropriate if the Companies
18 do retain management discretion in this area?

19 A. Yes, a full two-way reconciliation is appropriate. Under such a mechanism, the
20 Companies would reconcile spending under the amount allocated in rates as
21 proposed by Staff, and reconcile spending over the amount allocated in rates.

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1 Q. Do you agree with the mileage clearing metrics and negative revenue adjustments
2 proposed by Staff Witness Pause?

3 A. No. The mileage being put forth as the sole standard completely ignores the fact
4 that the costs of distribution vegetation management at RG&E are determined by
5 competitive bidding and market forces because contractors perform the bulk of
6 the work. If market prices increase, a factor beyond RG&E's control, the
7 Company will not be able to clear as many miles within the fixed allocation or
8 allowance of available vegetation management funding for each voltage class.
9 The negative revenue adjustments for failure to meet the vegetation management
10 metrics are not adequately supported by Staff and are excessive.

11 **NYSEG'S Additional Electric Reliability Personnel**

12 Q. What adjustment did the Staff Panel make to NYSEG's proposal for additional
13 electric reliability personnel?

14 A. The Staff Panel recommends reducing the total number of incremental positions
15 to 22 on page 82 of its testimony. In addition, Staff specifies particular positions
16 in its testimony.

17 Q. Can you accede to Staff's adjustment?

18 A. Yes.

19 Q. Do you agree that the new personnel should be in the specific positions identified
20 by the Staff Panel?

21 A. No. The Company's management should retain the flexibility to determine the
22 appropriate mix of employees.

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RG&E'S Additional Electric Reliability Personnel

1
2 Q. What adjustment did the Staff Panel make to RG&E's proposal for additional
3 electric reliability personnel?

4 A. The Staff Panel testimony at page 85 states that it recommends 21 incremental
5 positions for RG&E.

6 Q. Do you agree with Staff's adjustment?

7 A. Yes, the Panel accepts Staff's adjustment.

8 Q. In accepting the overall adjustment, do you agree that the new incremental
9 personnel should be in the specific positions identified by the Staff Panel?

10 A. No. The Company's management must retain the ability to determine in a
11 flexible manner the appropriate mix of employees. In accepting Staff's proposed
12 adjustment to personnel levels for the Companies, we are not suggesting that the
13 Companies should be constrained to fill only the specific positions mentioned by
14 the Staff Panel.

NYSEG'S Customer Service and Metering Personnel

15
16 Q. Do you accept Staff's proposed adjustment to 3 positions on page 88 of Staff's
17 testimony for NYSEG's customer service and metering personnel numbers?

18 A. Yes, subject to our prior testimony regarding the need for management flexibility
19 to determine the approximate mix of positions being filled.

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RG&E'S Customer Service and Metering Personnel

1
2 Q. Similar to NYSEG, does the Panel accept Staff's proposed adjustment on page 92
3 of its testimony to 3 positions in RG&E's customer service and metering
4 personnel?

5 A. Yes, subject to our prior testimony regarding the need for management flexibility
6 to determine the approximate mix of positions being filled.

Companies' Electric System Maintenance

7
8 Q. Did the Staff Panel accept the Companies' proposals for electric maintenance
9 initiative programs?

10 A. No. The Companies proposed to perform incremental maintenance at NYSEG
11 and RG&E at a cost of \$8.5 million and \$3.7 million, respectively. The proposed
12 program included a description of several different components, with costs
13 identified separately for each. Staff has proposed a significant adjustment
14 demand to the funding level in the Companies' proposal.

15 Q. What was Staff's proposed adjustment to electric system maintenance?

16 A. Staff agreed on page 96 of its testimony to fund these programs at a 50% level,
17 providing \$4.25 million for these programs at NYSEG and \$1.85 million for
18 programs at RG&E, with the funds allocated at the Companies' discretion.

19 Q. Did the Staff Panel take exception to specific programs or recommend specific
20 changes to any of the Companies' proposed programs?

21 A. No. In fact, the Staff Panel noted that the Companies should continue to pursue
22 implementation of many of these programs.

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1 Q. Can you identify specific programs Staff indicated should be cut?

2 A. We cannot identify them because the Staff Panel does not specify any programs to
3 be cut. It appears that the Staff Panel arbitrarily reduced electric system
4 maintenance funding by 50%, without considering the merits of any of the
5 individual programs.

6 Q. Do you agree with Staff's proposed adjustment?

7 A. No. The Companies believe that each of the programs included in this category is
8 important and that full funding for each program is appropriate. We are
9 concerned that funding at a 50% level will have a detrimental impact on future
10 reliability.

11 Q. Is this an area of safety concern?

12 A. Yes. We have safety concerns if the overall funding for these elective system
13 maintenance programs is cut by 50%.

14 Q. In light of the Company's safety concerns, will the cuts be applied equally across
15 all of the programs included in the Electric System Maintenance initiative?

16 A. No. The cuts will not be applied equally. The Companies will seek to continue
17 full funding of the programs with the highest safety concerns, thus
18 disproportionately decreasing the Company's and ratepayers' ability to obtain
19 reliability advantages from the remaining programs.

20 **Companies' Safety Standards/Inspection Programs**

21 Q. The Staff Panel did not support NYSEG's incremental increase for inspection
22 costs but did support NYSEG's incremental amount of \$84,670 for repairs and

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1 RG&E's incremental amount of \$41,653 for repairs. Do you oppose this
2 adjustment?

3 A. No.

4 **Companies' Transmission & Distribution Losses Study**

5 Q. Staff does not support any additional funding for T&D loss studies for each
6 Company. Do you agree with Staff's position?

7 A. No. Additional funding for these studies should be provided.

8 Q. Can you please explain why additional funding should be provided?

9 A. The Staff Panel alleges that T&D loss studies should be performed regularly as
10 part of normal operating procedure. Loss studies require significant time and
11 resources to complete and since, on the whole, the T&D systems do not
12 significantly change from year to year, most utilities elect to perform these studies
13 on a longer time cycle. This longer cycle does not allow the costs associated with
14 such studies to be represented in the test year data and as a result, the Company
15 would not be able to recover from ratepayers the cost of the studies.

16 Q. What evidence of a longer cycle for these studies can you offer?

17 A. As part of Case 08-E-0751, electric utilities in New York were directed to submit
18 their latest estimates of losses. NYSEG and RG&E referenced studies that had
19 been completed in 1998. By comparison, National Grid referenced a study from
20 2004 and Central Hudson referenced a study from 1998. Consolidated Edison
21 and Orange & Rockland did provide more recent calculations but used a variety
22 of broad assumptions to model their networks. The Panel is unaware of any

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1 major utility in New York that performs these types of T&D loss studies with any
2 rigor on a regular basis, as the Staff Panel mistakenly claims is the norm for New
3 York utilities.

4 Q. Why is an updated line loss study useful?

5 A. Although a utility's T&D system does not change dramatically over the course of
6 a single year, over time assets are brought on line or retired, loads change, sources
7 of generation change, transfers through the system change, and other system
8 characteristics are modified. It is important to periodically update the Companies'
9 T&D loss studies since factors generated by these studies are used in loss and load
10 factor calculations. Additionally, these studies can be utilized to calculate the
11 contributions to losses made by various levels of the T&D system. These base
12 line values can then be used to assess the viability and effectiveness of potential
13 electrical loss reduction proposals.

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Companies' Electric Plant Targets

1
2 Q. The Staff Electric Infrastructure Panel at page 101 of its testimony proposes a
3 hard cap on the amount of electric plant used for ratemaking. The Staff Panel
4 proposes that if the actual amounts added to the Companies' plant accounts at the
5 conclusion of the rate year are less than Staff's recommended levels, the
6 Commission should require NYSEG and RG&E to credit their customers the
7 revenue requirement impact of the difference between the actual net plant
8 expenditures and the target levels. Does the Company accept this proposal?

9 A. No. There should be no reconciliation for capital expenditures in a one year rate
10 proceeding. The Companies should not face a hard cap on the amount they spend
11 on Capital Expenditures in the rate year. The Companies have provided their
12 forecasted best estimate of capital expenditures for the rate year and that level
13 should be included in rates. Should that level of spending not occur for whatever
14 reason, that fact can be addressed in the Companies' next annual rate cases.

15 Q. What does the Staff Panel propose if the amount of added plant exceeds Staff's
16 stated plant target levels?

17 A. The Staff Panel's proposal on page 102 of its testimony is that the Companies
18 "only be allowed to recover the revenue requirement related to the plant upon
19 inclusion of it in rate base in their next rate case," provided that the Companies
20 fully justify exceeding the plant target levels proposed by Staff.

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1 Q. Does the Panel accept Staff's proposal?

2 A. No. As we have previously testified, no hard cap should be imposed on capital
3 expenditures in this single year rate case proceeding.

4 **STAFF GAS INFRASTRUCTURE PANEL**

5 **Capital Budget Review**

6 Q. Does Staff support RG&E's forecast of a \$22 million gas system capital budget
7 for 2010?

8 A. Yes, although the Staff Panel recommended updating the budget for actual gas
9 and common expenditures through the end of 2009. We do not oppose this
10 update.

11 Q. The Gas Infrastructure Panel recommends for RG&E's gas system capital budget
12 that a historic slippage rate of 10% be applied to the forecast gas capital budget
13 for calendar year 2011. Do you oppose this proposal?

14 A. No.

15 Q. Does this Panel accept Staff's gas plant depreciation and gas depreciation
16 models?

17 A. No, as discussed in detail by the Company's Revenue Requirements Panel, both
18 models proposed by Staff are seriously flawed.

19 Q. The Staff Gas Infrastructure Panel recommends on page 12 of its testimony that
20 NYSEG's gas capital expenditures for 2011 be adjusted down to \$26,094,947
21 from \$36,694,000, to reflect a reduction of the forecast levels of Gas Services,
22 Meters and Service Regulators, M&R/Gates and Distribution Regulator Stations

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1 and Highway Relocations to the 2010 level with an inflation adjustment going
2 forward. Does the Panel accept the Staff Infrastructure Panel's adjustments?

3 A. No, although the Panel does accept Staff's proposed reductions to the Company's
4 forecast levels of Gas Services, Meters and Service Regulators, M&R/Gate and
5 Distribution Regulator Stations and Highway Relocations. However, several
6 individual projects were not included in the Staff's reduced proposal, including
7 the Seneca West Pipeline Interconnect to the Elmira Distribution System,
8 Replacement of OPTO 22 PLC at Seneca Storage and the Binghamton Gas
9 SCADA System Replacement Project. These projects should be included in the
10 2011 forecast.

11 Q. Has Staff provided a reason for not including the three projects listed above?

12 A. Yes. Staff noted in the CapEx tab of Workpapers – Exh __ (GIP 1-8) NYSEG
13 that these projects were not in the rate year.

14 Q. Will the Company incur costs associated with the three projects in the 2011
15 forecast year?

16 A. Yes. In each case, the projects incur costs beginning early in 2011, including
17 engineering, material and vendor payments, and construction related costs
18 throughout the entire year.

19 Q. Why is the Binghamton Gas SCADA Replacement Project needed?

20 A. The Binghamton Gas SCADA System controls critical gate and regulator stations
21 throughout the state. The current system is obsolete and beyond its intended life.

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1 The replacement system proposed by the Company is needed to provide
2 continued reliable gas supply to gas customers throughout the state.

3 Q. Does Staff propose to exclude projects proposed by the Company related to the
4 proposed sale of Seneca Storage?

5 A. Yes. Staff states that the proposed sale may affect the Seneca West Pipeline
6 Interconnect to the Elmira Distribution System Project and the Replacement of
7 the OPTO 22 PLC at Seneca Lake Storage Facility.

8 Q. Are these two projects impacted by the sale of Seneca Storage?

9 A. The Seneca West Pipeline Interconnect to the Elmira Distribution System project
10 provides the same local production benefits as described in the Gas Supply
11 Testimony and is not impacted by the sale of Seneca Storage. The OPTO 22 PLC
12 Replacement Project should only be excluded if the sale is completed.

13 Q. Can you please specify how Staff proposes to increase gas capital expenditures
14 beyond 2011 for NYSEG?

15 A. Staff proposes to apply inflation to its proposed 2011 forecast of \$26,094,947.

16 Q. Does the Panel accept this proposal?

17 A. No. In addition to increasing the capital expenditures by inflation, the Company
18 proposes to include two additional projects in 2012, the Oakwood Ave to Gardner
19 Road Project and the Lansing Interconnect Project.

20 Q. Why are these projects needed?

21 A. The Oakwood Avenue to Gardner Road Project is needed to increase local
22 production supply options in the Elmira Gas System. The Lansing Interconnect

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1 Project is needed to provide additional capacity into the Lansing area needed to
2 decrease overall pressure drop to acceptable levels and to provide additional
3 capacity to the Dryden area.

4 **Gas Material and Supplies (“M&S”) in Inventory**

5 Q. What were the Companies’ forecasts for M&S in Inventory?

6 A. The Companies included a forecast M&S in inventory of \$2.3 million for NYSEG
7 and \$2.8 million for RGE&E for August 31, 2011.

8 Q. Did Staff accept the Companies’ forecast for M&S?

9 A. No. Staff made specific adjustments regarding the application of inflation and
10 obsolete materials and proposed the use of a 12 month rolling average ending
11 December 31, 2008.

12 Q. Does the Panel agree with this adjustment?

13 A. No. The Companies’ Revenue Requirements Panel testifies to why this
14 adjustment should not be adopted.

15 **Capital Expenditures Slippage Mechanism**

16 Q. The Staff Panel argues that a deferral mechanism is necessary to protect
17 ratepayers should capital programs included in the Companies’ rates slip into the
18 future, be cancelled or if the actual cost is less than projected. Does the Panel
19 oppose such a mechanism?

20 A. No.

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Vegetation Management

1
2 Q. While Staff supported the Company's proposal to add an incremental \$250,000 in
3 gas right of way vegetation management, what condition did Staff place on the
4 proposal?

5 A. Staff recommended a one-way true up be implemented such that any under
6 expenditure would be deferred for future customer benefit.

7 Q. Do you accept Staff's proposal?

8 A. No. Similar to our proposed treatment of electric vegetation management, the
9 Commission should make the deferral symmetrical – it should protect ratepayers
10 if the funds are under-spent, but it should also protect the Company if additional
11 funds are required for vegetation management.

Lost and Unaccounted Factor ("LAUF") Incentive

12
13 Q. Does Staff propose any changes to the tariff LAUF or calculation methodology
14 for NYSEG?

15 A. Yes. Staff is proposing to use a zero when averaging the previous 3 years for
16 calculating the factor for 2011 and beyond. In addition, Staff proposes that
17 NYSEG adopt RG&E's adjustment thresholds.

18 Q. Does the Company agree with Staff's proposal?

19 A. No. Staff has directed NYSEG to perform a study of its low and negative losses
20 through Case 09-G-0699, and report back to the Commission within six months.
21 The Company proposes to complete the evaluation and work with Staff in
22 reviewing the calculation methodology.

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Incremental Gas Operations Staffing

1
2 Q. What adjustment did the Staff Panel make to the Company's proposal for
3 incremental gas operations staffing?

4 A. The Staff Panel states that it recommends 9 incremental gas fitter positions at
5 NYSEG and 4 at RG&E.

6 Q. Does the Panel accede to Staff's adjustment?

7 A. Yes, the Company has acceded to Staff's overall adjustments regarding personnel,
8 subject to management flexibility, as we previously testified. We are pleased
9 Staff accepted the Company's other incremental staffing proposal.

10 **Meter Relocation Program**

11 Q. Does the Panel accept Staff's proposal to eliminate the revenue requirement
12 associated with the Company's meter relocation program?

13 A. Yes.

14 **STAFF GAS SAFETY PANEL**

15 **Infrastructure Enhancement**

16 Q. Does the Panel oppose the Staff Gas Safety Panel's proposed metrics for gas
17 safety?

18 A. We do not oppose Staff's specific metrics, which continue the metrics recently
19 established in the merger proceeding, but take issue with the original basis point
20 calculations contained in the testimony of the Staff Gas Safety Panel. While
21 keeping the performance standards the same, Staff initially increased the value of
22 each basis point for RG&E, thus increasing the revenue adjustment faced by
23 RG&E associated with failures to meet the specific metrics. The Company has

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1 demonstrated its commitment to safe and reliable service as shown by
2 improvements in damage prevention and leak management performance over the
3 past 5 years. The increase in “penalty” initially proposed by Staff is not
4 warranted and provides no additional incentive to achieve the safety related
5 metrics.

6 Q. Has the Staff Panel updated the value of a basis point used for calculation of
7 regulatory liability adjustments related to gas safety measures?

8 A. Yes. Staff has provided revised basis point values in response to interrogatory
9 NYSEG-RGE-114. The updated basis point values are \$35,000 for NYSEG and
10 \$32,000 for RG&E. We accept these revised basis point calculations.

11 **STAFF WITNESS JASON P. PAUSE**

12 **Electric Reliability Performance**

13 Q. Have the Companies’ electric reliability performance metrics recently been
14 modified by the Commission?

15 A. Yes. The Commission recently evaluated and set the level of the two main
16 reliability metrics, the SAIFI and CAIDI, for NYSEG and RG&E in its Order
17 Authorizing Acquisition subject to Conditions in Case 07-M-0906 in January
18 2009. At that time, significant increases in the negative revenue adjustments that
19 would apply should the Companies miss their reliability targets were also put in
20 place.

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1 Q. Did the negative revenue adjustments or penalties escalate for repeated failure to
2 meet a metric?

3 A. Yes. The negative revenue adjustments would double (and re-double) for each
4 consecutive calendar year that the performance target was not met.

5 Q. Is Staff proposing a change to the existing CAIDI or SAIFI standards applicable
6 for each of the Companies?

7 A. No.

8 Q. What change is Staff proposing to the reliability metrics?

9 A. Staff is proposing to double yet again the negative revenue adjustment that the
10 Companies would be liable for should they miss a reliability target.

11 Q. Is the Panel aware of any other major New York utility that has had its negative
12 revenue adjustments increased dramatically and then doubled again in such a
13 short period of time?

14 A. No.

15 Q. Is there any basis in the Companies' reliability performance for Staff's
16 unprecedented doubling of the revenue adjustments for failure to meet the
17 Companies' reliability metrics?

18 A. No. The Companies have continued to be among the most reliable of the major
19 New York utilities and have consistently met each of their reliability targets.

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1 Q. Has the Companies' reliability performance improved from 2008 to 2009?

2 A. Yes. Staff is seeking an unprecedented doubling of negative revenue adjustments
3 at a time when the Companies' reliability performance has not only remained
4 above current reliability standards, but has improved.

5 Q. Does the Panel have an exhibit illustrating the Companies' improvement in
6 CAIDI/SAIFI between 2008 and 2009?

7 A. Yes. Exhibit __ (CRO Rebuttal - 3) is a table that illustrates NYSEG's
8 improvement of 4% for CAIDI and 3% for SAIFI. The table also shows RG&E's
9 CAIDI improvement of 3% and SAIFI improvement of 24% between 2008 and
10 2009.

11 Q. What do you recommend the Commission adopt for an electric reliability
12 performance mechanism in these rate cases?

13 A. We propose that the Companies' recently set and existing SAIFI and CAIFI
14 standards and associated negative revenue adjustments be maintained.
15 Maintaining the existing metrics and associated negative revenue adjustments
16 makes sense because the Companies are among the most reliable of New York's
17 utilities, have shown only improvement in their recent reliability performance and
18 already have a significant negative revenue adjustment in place to prevent any
19 backsliding. In addition, the Companies are likely to face additional pressure on
20 reliability should Staff's proposed productivity and austerity adjustments and the
21 resulting reduction in available resources be adopted.

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NYSEG/RG&E Major Storm Definition

1
2 Q. Has Staff recommended a change to the definition of a Major Storm?

3 A. The Staff Revenue Requirements Panel testimony at pages 90 and 100
4 recommends that the Commission alter the definition of a Major Storm to a storm
5 that must both affect 10% of customers and last 24 hours, instead of one or the
6 other.

7 Q. Did the Staff Panel provide a reasonable explanation for the change?

8 A. No.

9 Q. Is this alteration of the Major Storm definition an insignificant technical drafting
10 change?

11 A. No. The proposed change would have major ramifications on the calculation of
12 the demonstrated reliability performance of the Companies, as captured by the
13 existing CAIDI and SAIFI indices.

14 Q. Would the Panel please explain why the Companies oppose this seemingly small
15 change to the definition of a Major Storm for reliability calculation purposes?

16 A. CAIDI and SAIFI are unique to each utility and are developed after a complex
17 review of a company's overall reliability performance. As part of that original
18 benchmarking, the Companies are allowed to exclude the impact of certain events
19 that are mainly outside of their control, such as Major Storms. Without this
20 exclusion, the Companies' measured reliability would fluctuate dramatically with
21 the weather, thus defeating the purpose of the metric. Traditionally, utility
22 companies have experienced a large percentage of outages that have been

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1 excluded from the SAIFI and CAIDI metrics based upon the applicability of one
2 or the other storm criterion of 10% percent of an operating area or at least one
3 customer out for greater than 24 hours. The hours and frequency of these
4 interruptions have been properly excluded from the calculation of CAIDI and
5 SAIFI as derived from external uncontrollable events.

6 Q. What impact would the change in definition have on the reliability performance of
7 the Companies as utilizing the existing CAIDI and SAIFI metric levels?

8 A. Although difficult if not impossible to calculate, we believe it likely that the
9 Companies would have exceeded their CAIDI and/or SAIFI requirement in
10 numerous years if the metrics were calculated utilizing Staff's proposed Major
11 Storm definition change, despite the Companies' providing extremely reliable
12 service.

13 Q. Since it filed its testimony, has Staff acknowledged the impact that this change in
14 the definition of Major Storm could have on the Companies' existing reliability
15 metrics?

16 A. Yes. In response to NYSEG-RGE-116, a copy of which is included in Exhibit __
17 (CRO Rebuttal - 4), Staff clarified that its Revenue Requirements Panel's use of
18 the term Major Storm should have read "cost-Qualifying Major Storm" and
19 therefore Staff now asserts that its proposed definitional change "would have no
20 effect on the SAIFI and CAIDI thresholds." We support Staff's clarification on
21 this issue.

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1 Q. What is the current base revenue adjustment should the Companies fail to meet
2 their CAIDI and SAIFI performance targets?

3 A. The current base revenue adjustments for failing to meet the targets are
4 summarized in Staff's Exhibit __ (RPM-1).

5 Q. Is Staff recommending a change to those revenue adjustments?

6 A. Yes. Also included in Staff Exhibit __ (RPM-1) are proposed rate adjustments
7 that are double the current adjustments.

8 Q. Although Staff appears to have clarified in response to NYSEG-RGE -116 that it
9 is not seeking to change the definition of a Major Storm for reliability purposes, if
10 that definition were to change, could the current SAIFI and CAIDI metrics
11 reasonably be retained?

12 A. No. The two metrics are designed to prevent backsliding by the Companies on
13 their historical reliability performance. The current CAIDI and SAIFI levels were
14 premised on the existence of a number of exceptions that could be expected as a
15 result of the operative definition of a Major Storm. If fewer exceptions to the
16 metric calculations are available because of a change in the definition of a Major
17 Storm, the SAIFI and CAIDI targets must be adjusted accordingly.

18 Q. Why else would a change to the definition of a Major Storm be problematic?

19 A. Staff has proposed a doubling of the revenue adjustment that would apply if the
20 Companies fail to meet their CAIDI and SAIFI standards. Putting aside for the
21 moment whether such a change is warranted, which it is not, altering the
22 definition of a Major Storm without fixing the CAIDI and SAIFI metrics would

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1 inevitably result in the Companies missing the metrics and incurring the revenue
2 adjustment, despite the Companies' actual reliability performance staying at
3 exactly the same level or even improving. Repeated failures to meet improperly
4 benchmarked reliability metrics, and the automatic negative revenue adjustments
5 associated with these events would place undue financial pressure on the
6 Companies.

STAFF WITNESS DAVID S. MORRELL

**Transmission Rights of Way ("ROW") Vegetation Management Rate Year
Expenditures**

10 Q. What did NYSEG propose regarding the use of a new ROW vegetation
11 management tool called LiDAR?

12 A. The Company has proposed to perform a second LiDAR survey in 2010 at a cost
13 of \$490,000.

14 Q. What is LiDAR?

15 A. LiDAR is an imaging tool utilized to manage ROW and vegetation growth.

16 Q. Did Staff support the Company's proposal regarding LiDAR?

17 A. No. Staff noted its belief that existing annual aerial and ground patrols are
18 sufficient for identifying encroaching vegetation.

19 Q. Do you agree with Staff's rejection of funding for a LiDAR survey in 2010?

20 A. No. LiDAR is an excellent tool for identifying conditions on the right of way.
21 Funding for LiDAR is appropriate because potential violations at all rated
22 operating conditions cannot be identified visually. While the Company annually
23 performs aerial and ground vegetations patrols of the bulk system, it is impossible

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1 for the inspectors to accurately gauge the maximum sag of the conductors. To do
2 so, an inspector would need to know the maximum conductor sag for the entire
3 length of each individual span of the bulk transmission system. In addition,
4 where side slopes or knolls exist, the maximum sag for each of the three
5 conductors relative to the terrain would also have to be known. These facts
6 cannot be determined without a tool such as LiDAR.

7 Q. What are the benefits of LiDAR as a ROW management tool?

8 A. LiDAR has two important functions as a ROW management tool. First, LiDAR
9 correctly identifies the scope of work that is necessary to meet reliability ROW
10 clearing standards, allowing for the most efficient utilization of line clearing
11 funds. Second, repeated LiDAR surveys are an accurate and cost effective
12 method of determining that all target vegetation was successfully removed.

13 Q. Have other utilities around the country had success utilizing LiDAR in multiple
14 years?

15 A. Yes, several utilities have had success. For example, Pennsylvania Power and
16 Light (“PP&L”) conducted LiDAR surveys in 2008, 2009, and it has scheduled
17 one for 2010. PP&L’s experience is that repeated LiDAR surveys “are the real
18 litmus test” in determining that all target vegetation has been removed.

19 Additionally, PP&L’s experience of ground patrols alone versus LiDAR
20 convinced PP&L of the necessity of removing the human error associated with
21 visual estimation of maximum sag.

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1

Stray Voltage

2

Q. Do the Companies accede to the Staff Revenue Requirement Panel's proposed

3

reduction for stray voltage testing?

4

A. Yes, as addressed by the Companies' Revenue Requirement Panel.

5

Q. Does this conclude your rebuttal testimony at this time?

6

A. Yes, it does.

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