

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
EMBEDDED COST OF SERVICE PANEL**

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1 Q. Please state the names of the members on this Embedded Cost of Service Panel
2 ("Panel").

3 A. We are Patricia A. Beaudoin, Susan Morien, Paul M. Normand, and Carolyn A.
4 Sweeney.

5 Q. Did you sponsor the Direct Testimony of the Embedded Cost of Service Panel on
6 behalf of New York State Electric & Gas Corporation ("NYSEG") and the Direct
7 Testimony of the Embedded Cost of Service Panel on behalf of Rochester Gas
8 and Electric Corporation ("RG&E") in this proceeding?

9 A. Yes.

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

11 A. We address the following: 1) the New York State Department of Public Service
12 Staff ("Staff") Electric Rates Panel's testimony on the Companies' embedded cost
13 of service ("ECOS") studies and the Companies' Merchant Function Charge
14 ("MFC") calculation; 2) the Staff Gas Rates Panel's testimony on the Companies'
15 MFC calculation; and 3) Dr. Rosenberg's testimony (on behalf of Multiple
16 Intervenors) on the Companies' ECOS studies.

17 Q. Did the Panel file revised exhibits as part of the Companies' update on December
18 4, 2009?

19 A. We did. For NYSEG Electric, the revisions addressed working capital, load data,
20 uncollectibles, rate base, and the MFC calculation. For NYSEG Gas, the
21 revisions addressed working capital, uncollectibles, rate base and the MFC
22 calculation. For RG&E Electric, the revisions related to customer count,

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1 uncollectibles, FERC Account 362, working capital, rate of return and the MFC
2 calculation. For RG&E Gas, the revisions related to working capital, rate of
3 return and the MFC calculation. The specific revisions are detailed in the update.

4 Q. Did the Companies make any changes to the ECOS studies since the December 4,
5 2009 Update?

6 A. Yes. A list of the changes is included as part of our rebuttal testimony exhibits.

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

8 A. Yes. The following exhibits are supported by the Panel:

9 RG&E Exhibits

- 10 • Exhibit __ (RGEECOS-3) Rebuttal (electric ECOS study summary of results
11 and indexed rates of return by service class);
- 12 • Exhibit __ (RGEECOS-4) Rebuttal (gas ECOS study summary of results and
13 indexed rates of return by service class);
- 14 • Exhibit __ (RGEECOS-5) Rebuttal (classification summary of the Demand,
15 Energy and Customer components at the "claimed" rate of return for the
16 electric study);
- 17 • Exhibit __ (RGEECOS-6) Rebuttal (classification summary of the Capacity,
18 Commodity and Customer components at the "claimed" rate of return for the
19 gas study);
- 20 • Exhibit __ (RGEECOS-7) Rebuttal (listing of all the major accounts in the
21 electric ECOS study by service class);

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- 1 • Exhibit __ (RGEECOS-8) Rebuttal (listing of all the major accounts in the gas
2 ECOS study by service class);
- 3 • Exhibit __ (RGEECOS-9) Rebuttal (electric ECOS study summary of results
4 by Function);
- 5 • Exhibit __ (RGEECOS-10) Rebuttal (gas ECOS study summary of results by
6 Function);
- 7 • Exhibit __ (RGEECOS-11) Rebuttal (listing of major accounts in the electric
8 ECOS study and how they are allocated to each function);
- 9 • Exhibit __ (RGEECOS-12) Rebuttal (listing of major accounts in the gas
10 ECOS study and how they are allocated to each function);
- 11 • Exhibit __ (RGEECOS-14) Rebuttal (electric and gas ECOS study customer
12 care analysis);
- 13 • Exhibit __ (RGEECOS-19) Rebuttal (calculation of the electric MFC);
- 14 • Exhibit __ (RGEECOS-20) Rebuttal (calculation of the gas MFC);
- 15 • Exhibit __ (RGEECOS-21) Rebuttal (calculation of the combined Bill
16 Issuance and Payment Processing ("BIPP") charge); and
- 17 • Exhibit __ (RGEECOS-22) Rebuttal (calculation of the electric competitive
18 meter rates).
- 19 NYSEG Exhibits
- 20 • Exhibit __ (NYSEGECOS-3) Rebuttal (electric ECOS study summary of
21 results and indexed rates of return by service class);

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- 1 • Exhibit __ (NYSEGECOS-4) Rebuttal (gas ECOS study summary of results
2 and indexed rates of return by service class);
- 3 • Exhibit __ (NYSEGECOS-5) Rebuttal (classification summary of the
4 Demand, Energy and Customer components at the "claimed" rate of return for
5 the electric study);
- 6 • Exhibit __ (NYSEGECOS-6) Rebuttal (classification summary of the
7 Capacity, Commodity and Customer components at the "claimed" rate of
8 return for the gas study);
- 9 • Exhibit __ (NYSEGECOS-7) Rebuttal (listing of all the major accounts in the
10 electric ECOS study by service class);
- 11 • Exhibit __ (NYSEGECOS-8) Rebuttal (listing of all the major accounts in the
12 gas ECOS study by service class);
- 13 • Exhibit __ (NYSEGECOS-9) Rebuttal (electric ECOS study summary of
14 results by Function);
- 15 • Exhibit __ (NYSEGECOS-10) Rebuttal (gas ECOS study summary of results
16 by Function);
- 17 • Exhibit __ (NYSEGECOS-11) Rebuttal (listing of major accounts in the
18 electric ECOS study and how they are allocated to each function);
- 19 • Exhibit __ (NYSEGECOS-12) Rebuttal (listing of major accounts in the gas
20 ECOS study and how they are allocated to each function);
- 21 • Exhibit __ (NYSEGECOS-14) Rebuttal (electric and gas ECOS study
22 customer care analysis);

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- 1 • Exhibit __ (NYSEGECOS-19) Rebuttal (calculation of the electric MFC);
- 2 • Exhibit __ (NYSEGECOS-20) Rebuttal (calculation of the gas MFC);
- 3 • Exhibit __ (NYSEGECOS-21) Rebuttal (calculation of the combined BIPP
- 4 charge); and
- 5 • Exhibit __ (NYSEGECOS-22) Rebuttal (calculation of the electric
- 6 competitive meter rates).

7 Combined Exhibit

- 8 • Exhibit __ (ECOS-24) (list of updates revisions to ECOS studies since
- 9 12/4/09 Update); and
- 10 • Exhibit __ (ECOS-25) (an interrogatory response referenced in rebuttal
- 11 testimony).

12 Q. Does the Panel have any preliminary comments concerning the use of the ECOS

13 studies to develop competitive rates in this proceeding?

14 A. The ECOS studies will be rerun based on the New York State Public Service

15 Commission's ("Commission") decision in this proceeding. The rates for BIPP,

16 Electric Meter Reading, Electric Meter Services, Electric Meter Ownership and

17 the administrative component of the MFC will be set using the final ECOS

18 studies.

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ECOS STUDIES

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Identification of a Customer Component of Cost in Distribution Plant Accounts
(NYSEG and RG&E)

Q. Did Staff raise any concerns regarding NYSEG's or RG&E's gas ECOS studies?

A. No.

Q. Did Staff raise any concerns regarding NYSEG's or RG&E's electric ECOS studies?

A. Yes. The Staff Electric Rates Panel raised one concern regarding the Companies' electric ECOS studies.

Q. What did Staff propose?

A. While the Staff Electric Rates Panel generally agreed with the functionalizations, classifications and allocations used by NYSEG and RG&E, it proposed a different classification for Federal Energy Regulatory Commission ("FERC") Accounts 364 (poles), 365 (overhead conductors), 366 (conduit), 367 (underground conductors) and 368 (transformers).

Q. How did the Companies classify those accounts?

A. The Companies classified the accounts as 100% demand-related.

Q. How did the Staff Electric Rates Panel classify the accounts?

A. The Staff Electric Rates Panel classified the accounts as 50% demand-related and 50% customer-related.

Q. Do you agree with the Staff Electric Rates Panel's classification?

A. No. Any recognition of a customer cost level is impractical and inappropriate for these accounts. As we stated in our Direct Testimony, our approach reflects a

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1 much better recognition of cost responsibility and also addresses the concerns
2 raised in the National Association of Regulatory Utility Commissioners
3 ("NARUC") Utility Cost Allocation Manual. Moreover, we properly included all
4 of the service- and meter-related costs as customer-related in all of our ECOS
5 studies. These facilities are closer to customers and, therefore, reflect true
6 customer costs. We used this approach in a consistent manner for all four cost
7 studies.

8 Q. Did any other party file testimony regarding the classification of distribution
9 plant?

10 A. Yes. Dr. Rosenberg, on behalf of Multiple Intervenors, asserted that distribution
11 plant should be classified as part customer-related and part demand-related in the
12 ECOS studies.

13 Q. Do you also disagree with Dr. Rosenberg's attempt to include a customer
14 component of costs in certain distribution accounts?

15 A. Yes. Our disagreement is essentially the same as what we just discussed with
16 respect to the shortcomings in Staff's approach.

17 Q. Have either Staff or Dr. Rosenberg proposed any rationale for the use or
18 recognition of a customer component of costs in the ECOS studies?

19 A. Unfortunately, both testimonies reflect major flaws in logic and rationale. Staff
20 also ignores the "double dip" problem inherent in these calculations (as
21 recognized by NARUC) and its obvious impact on small customer classes. Dr.
22 Rosenberg's testimony magnifies the Staff's shortcomings by creating misleading

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1 and flawed examples in his RG&E testimony. He also relies on a
2 mischaracterization of the NARUC Utility Cost Allocation Manual.

3 Q. Does Dr. Rosenberg recommend an approach?

4 A. Yes. Dr. Rosenberg appears to advocate the use of a "minimum (or zero)
5 intercept method."

6 Q. Do you have any concerns with that approach?

7 A. Yes. The identification of any minimum installed system contains a
8 corresponding load carrying capability. It is, in fact, this load carrying capability
9 that must be recognized and removed from customer load prior to allocating the
10 remaining (non-minimum) costs to customer classes. For small customers, which
11 are the majority of NYSEG's and RG&E's secondary customers, this is a major
12 component of load. Unfortunately, both Staff and Dr. Rosenberg chose to ignore
13 this important aspect of proper development of appropriate allocation factors.
14 The results simply over-allocate costs to the smaller residential and general
15 customer classes, which are the majority of customers. In the final analysis, the
16 proposed recognition of a customer component by both Staff and Dr. Rosenberg
17 should be dismissed as flawed and unrepresentative of cost responsibility.

18 Q. You previously mentioned a "double dip" cost allocation concern. What is your
19 specific concern?

20 A. In the use of a minimum size methodology, the associated costs are assigned to all
21 classes based on the number of customers. This minimum size can have a sizable
22 capacity level which must be considered and removed from customer load

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1 responsibility before finalizing allocation factors. Failing to do this extra step
2 results in this load capability being ignored and the remaining non-minimum
3 system costs being allocated on each class's total load, thereby creating a serious
4 flaw - a "double dip" - which results in an over-allocation of these costs to smaller
5 customer classes.

6 Q. Does your "double dip" concern have a major impact on an ECOS study?

7 A. Yes. It is a major concern for the NYSEG and RG&E ECOS studies. The impact
8 is a large distortion to the allocation for residential and small general service
9 classes. This is so obvious because their demands are rather small, and
10 incorporating any consideration for the minimum size adjustment would
11 essentially eliminate a major portion of their load from the allocator with the
12 resulting residual demand having a much reduced cost responsibility assignment
13 in the allocation process. These shortcomings are of such magnitude as to support
14 not splitting these accounts and recognizing any customer component. The fact
15 that we do not support the flawed approaches advocated by either Staff or Dr.
16 Rosenberg does not mean we have understated customer costs. As we stated
17 earlier, we have included the entire meter and service costs as customer-related
18 which yields a significant customer component by customer class.

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1 Q. Earlier you mentioned Dr. Rosenberg's attempt to present a distribution delivery
2 system in his RG&E testimony (Figure 1, page 7). Is Dr. Rosenberg's Figure 1
3 accurate?

4 A. Dr. Rosenberg's attempt to represent the Company's distribution system (Figure 1)
5 is severely flawed and misleading. The delivery system for each Company is so
6 varied that a representative model cannot be easily developed. Unfortunately, Dr.
7 Rosenberg's Figure 1 represents very little of the installed facilities of either
8 Company. The assumption of three customers per transformer along with each
9 customer having a secondary circuit in addition to a service is clearly misleading.
10 Additionally, the Companies have a concern with the overstated 10 kW per
11 customer in his example. This is a significant flaw in his logic as the vast
12 majority of the Companies' secondary customers have load levels of
13 approximately 2 kW. His example is therefore uncharacteristic of and irrelevant
14 to the delivery system for the Companies' secondary customers. Obviously, the
15 size of the transformers and the unstated three-phase load that Dr. Rosenberg
16 associates with "Class B", along with a host of other assumptions, make his
17 description essentially meaningless for the majority of secondary customers.

18 Transmission Allocation (NYSEG and RG&E)

19 Q. Have you reviewed Dr. Rosenberg's comments and recommendations with respect
20 to the allocation of transmission plant costs?

21 A. Yes. Instead of the 12 coincident peak ("12 CP") method utilized by the
22 Companies, Dr. Rosenberg recommended, for NYSEG, that transmission costs be

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1 allocated on the basis of three winter peak months and two summer peak months
2 and, for RG&E, four summer peak months.

3 Q. Do you agree with Dr. Rosenberg's approach?

4 A. No. His primary arguments are that the peak months chosen are higher in MW
5 magnitude and that the remaining months are irrelevant to the planning and
6 operation of the transmission system.

7 Q. Could you please explain the purpose of a transmission network?

8 A. An integrated transmission system incorporates a multitude of voltages,
9 interconnections, and energy resources over a vast geographical area. This
10 network encompasses a varied level of diversity throughout the year and service
11 territory. As with all power systems equipment that delivers energy, periodic
12 maintenance, construction, and upgrades will occur, primarily in lower load
13 periods which tend to reduce the capability to accomplish these important tasks.
14 In other words, transmission capability is required year round and no months are
15 irrelevant, and that is precisely why our recommended use of the 12 CP method
16 best captures the overall planning and operation of the transmission system.

17 Q. Is there any other important reason to support the Companies' use of a 12 CP
18 allocation for transmission plant?

19 A. Yes. FERC has traditionally recognized this approach as representative and
20 equitable for transmission plant allocation.

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1 Economic Development Discount Allocation (NYSEG and RG&E)

2 Q. Did Dr. Rosenberg take a position regarding the allocation of economic
3 discounts?

4 A. Yes. Dr. Rosenberg on page 11 of his NYSEG testimony and page 10 of his
5 RG&E testimony says that he agrees with the idea of spreading economic
6 incentive discounts to all classes in the ECOS study but he disagrees with the
7 Companies' method of using energy as the allocation factor.

8 Q. How were economic development incentives handled in the ECOS studies?

9 A. The Companies added the overall discounted amount back to each service class
10 where the discounts occurred. This equates to billing out all customers at tariff
11 rates without including the economic discounts. Next, the Companies made a
12 revenue neutral adjustment to re-allocate the discounted amount to all service
13 classes so that the discounts do not reduce the returns for only the service classes
14 that include customers receiving incentive rates. The financial impact is spread to
15 all classes that support economic development programs.

16 Q. Do you agree with Dr. Rosenberg's assertion that energy is an inappropriate
17 allocation factor for spreading the discount to all classes?

18 A. No. The Companies chose to allocate the discounts equally on a per kwh or
19 energy basis because this is a reasonable method to ensure that all classes will
20 cover a share of the economic development program. The total cost of service
21 ("TCOS"), which is a function of the expenses and return on investments by
22 service class, would also be a reasonable allocation factor. The Companies

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1 disagree with Dr. Rosenberg's use of delivery revenues as a proxy for TCOS
2 because the delivery revenues are not necessarily cost based and use of delivery
3 revenues as an allocation factor will simply magnify any subsidies that exist and
4 should be avoided.

5 Production Costs Included in ECOS Studies (NYSEG & RG&E)

6 Q. In his testimony for both NYSEG and RG&E, Dr. Rosenberg discussed the
7 inclusion of the costs related to Company-owned production in the electric ECOS
8 studies. Do you agree that Company-owned production costs should be removed
9 from the ECOS studies?

10 A. No.

11 Q. In his NYSEG testimony, Dr. Rosenberg states that to include NYSEG's
12 production costs in the ECOS study, without also including the associated
13 revenues, is not only showing half the picture, but it also muddies the focus on the
14 delivery rates. Do you agree?

15 A. No. NYSEG's current delivery rates were set with the inclusion of the Company-
16 owned production costs included and, therefore, the delivery revenues include the
17 associated revenues.

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1 Q. In his NYSEG testimony, Dr. Rosenberg states that the energy and capacity of
2 these plants are sold into New York's wholesale electricity market and the entire
3 amount is flowed back to customers through the Non-Bypassable Charge
4 ("NBC"). Do you agree with this statement?

5 A. Yes. As Dr. Rosenberg points out, the entire amount of the hydro electricity
6 produced is sold in the wholesale market and the entire amount of the sale is
7 passed back to customers through the NBC. The sale of electricity and the pass-
8 back of the associated revenues to customers is a commodity transaction and it is
9 appropriate to exclude these from the ECOS studies.

10 Q. On page 12 of his RG&E testimony, Dr. Rosenberg states "an overcharge of
11 delivery costs could be masked by an undercharge in production costs (and vice
12 versa, of course)." Dr. Rosenberg further states, "it is important that each
13 component of the customer's bill track the pertinent costs." Do you agree?

14 A. No. The total results will be the same whether the production costs are collected
15 separately or included with other delivery cost collection.

16 SC-8 ECOS Anomaly (RG&E)

17 Q. On page 14 of his RG&E testimony, Dr. Rosenberg states that there appears to be
18 an anomaly with respect to the ECOS results between SC-8 commercial and
19 industrial subclasses. Do you agree?

20 A. Yes.

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1 Q. Could you please provide an explanation for the ECOS results?

2 A. The Companies' initial filing allocated the Companies' production units on the
3 basis of sales (kWh) for customers who receive their supply from the Company,
4 excluding sales to customers that receive supply from energy service companies
5 ("ESCOs"). There is a difference between and within service classes with regards
6 to the amount of total sales from customers that receive their supply from the
7 Company and those that receive supply from ESCOs. This difference resulted in
8 the ECOS anomaly identified in Dr. Rosenberg's testimony.

9 Q. Have you modified this allocation approach?

10 A. Yes. We have corrected for this by allocating all steam and hydro costs on the
11 total sales for each service class. The result is that the subclass unit costs have
12 been corrected and the anomaly no longer exists.

13 Q. Did Dr. Rosenberg present an ECOS scenario with the production costs removed?

14 A. Yes, he did.

15 Q. Can you comment on the impact to the MFC revenue requirement when Dr.
16 Rosenberg removes production-related costs from his ECOS scenarios?

17 A. Yes. In addition to revenue allocation, the ECOS studies are used to set
18 competitive rates for the MFC, BIPP and electric Competitive Metering. Dr.
19 Rosenberg removed all "commodity related" credit and collection expenses, call
20 center expenses, uncollectibles, and working capital from his ECOS scenarios.
21 The resulting impact severely understates the MFC revenue requirement. The
22 Companies followed the Commission's Statement of Policy on Unbundling and

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1 Order Directing Tariff Filings ("Unbundling Policy Statement and Order") issued
2 on August 25, 2004 in Case 00-M-0504 ("Unbundling Proceeding") and the
3 Commission's August 23, 2006 Order Adopting Recommended Decision with
4 Modifications issued in Case 05-E-1222 (NYSEG's last electric rate case)
5 ("August 23, 2006 Order") with respect to the allocation of uncollectibles, credit
6 and collection, call center expenses, and working capital. Dr. Rosenberg's ECOS
7 scenario does not take into account the directives associated with setting the
8 MFC. Therefore, his ECOS scenario should be rejected in its entirety because
9 there is not a balance between revenue allocation and competitive rate design for
10 functional components.

11 Q. Have you found any other flaws with Dr. Rosenberg's electric ECOS scenarios?

12 A. Dr. Rosenberg attempted to develop an ECOS scenario for the NYSEG Electric
13 business excluding the fixed production costs. As we stated previously, the Panel
14 disagrees with the idea of removing production costs and revenues from the
15 electric ECOS studies but we wanted to point out several flaws in his analyses.
16 Dr. Rosenberg removed production plant and production-related Operations &
17 Maintenance ("O&M") but it appears that he did not remove the associated
18 production-related delivery revenues. As mentioned above, he removed the
19 MFC-related expenses from the model but he failed to remove the MFC
20 commodity revenues that were included in the study. Therefore, Dr. Rosenberg's
21 ECOS scenario does not accurately reflect a scenario representing the absence of
22 all production costs and revenues and should be rejected.

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1 Q. Do you have similar concerns with Dr. Rosenberg's RG&E ECOS scenario
2 excluding fixed production?

3 A. Yes. Dr. Rosenberg excluded fixed Production plant, associated O&M, and a
4 portion of production revenues from the model. However, there were additional
5 production-related revenues included in Other Operating revenues that were
6 overlooked and not excluded. Therefore, Dr. Rosenberg's ECOS scenario does
7 not accurately reflect a scenario representing the absence of all production costs
8 and revenues and should be rejected.

9 SC7-1 Secondary Costs (NYSEG)

10 Q. Do you agree with Dr. Rosenberg's comments regarding the secondary
11 distribution plant (FERC Accounts 364-368) allocation that NYSEG made for the
12 SC 7-1 class?

13 A. No. FERC Accounts 364-368 were split into a Primary plant portion and a
14 Secondary plant portion. SC 7-1, as well as other Primary and Secondary metered
15 service classes, all received a fair allocation of the Primary plant associated with
16 these Distribution plant accounts. While Dr. Rosenberg seems confused as to the
17 exclusion of secondary plant costs to these Large General Service SC 7-1
18 customers, the rationale should be obvious. They are simply too big to be served
19 off secondary circuits. The use of secondary circuits which provide an electrical
20 path from secondary transformers to a customer premise is mainly for the
21 Company's much smaller loads where cost and energy delivery efficiencies can be
22 maximized. Large customers that approach loads of 500 kW or greater are not

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1 served by secondary circuits simply because of their large power requirements. In
2 addition, the size and costs of any secondary facilities and associated losses would
3 simply be impractical. Our approach was to recognize that this rate has a
4 threshold level which readily identifies larger load requirements and is more
5 properly represented by not allocating any secondary costs. Assigning any
6 secondary costs to these very large customers is inappropriate and would distort
7 the allocation.

8 Expansion Power Customer Load (NYSEG)

9 Q. Would you like to address Dr. Rosenberg's recommendation (in his NYSEG
10 testimony) to exclude expansion customer load from the demand allocation
11 factors?

12 A. We disagree with Dr. Rosenberg's suggestion of removing the New York Power
13 Authority ("NYPA") expansion loads from the demand allocation factors (12 CP,
14 2CP, NCP) in the electric ECOS study. Removing the NYPA expansion load
15 would create a distortion between costs and revenues. All of NYPA usage and
16 NYPA revenues have been included in the electric ECOS study within each
17 customer's otherwise applicable service class ("OASC"). Many non-residential
18 customers have partial allocations from NYSEG, NYPA, and various ESCOs. All
19 load and all revenues have been included for all customers on the system to
20 ensure proper cost recovery. In addition, the Company's monthly system peaks
21 include all NYPA load which underlies the overall planning and operations of the
22 power system and investments in the necessary facilities to serve those loads.

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1 Therefore, it is appropriate and reasonable for the customers' demand allocation
2 factors to include NYPA load.

3 Transmission and Subtransmission

4 Q. Do you have any comments on Dr. Rosenberg's argument regarding the need to
5 recognize the costs associated with transmission and subtransmission facilities?

6 A. In the Companies' response to MI-153 (NYRC-0648), we briefly explained that
7 the distinction between these historical voltage categories has essentially been
8 eroded over a period of years as a result of the Company undertaking more cost
9 effective and efficient delivery of energy to their primary distribution networks
10 and customers. See Exhibit __ (ECOS-25). The changing nature and redefinition
11 of traditional voltages have been occurring throughout the power industry over
12 the last decade.

13 Q. Based on your review of the system characteristics, are Dr. Rosenberg's concerns
14 valid in attempting to quantify any cost difference for subtransmission?

15 A. His concerns are simply no longer valid or relevant. Power systems have grown
16 and expanded in a cost effective manner which masks this historical definition.

17 Q. Could you elaborate further?

18 A. As we mentioned earlier, the traditional path of power flow to ultimate customers
19 through the subtransmission system has been bypassed in many instances
20 resulting in lower costs and higher efficiencies. This is common in the industry
21 and has been taking place for quite some time.

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Q. Did the Staff Electric Rates Panel and Staff Gas Rates Panel recommend modifications to the Companies' proposals for setting and reconciling its electric and gas MFCs?

A. Yes.

Q. Do the Companies agree with Staff's proposals?

A. Not entirely. Staff proposed that the Companies not be allowed to fully reconcile all MFC components. The Companies strongly disagree with Staff's position. Fluctuations in supply costs can dramatically affect the costs collected through the MFC. Lack of an annual reconciliation requires either the customers or the Companies to absorb the risk of dramatic swings in costs. We will separately discuss Staff's proposals regarding each component of the electric and gas MFCs.

Working Capital for Purchase Power and Purchase Gas

Q. What does the Staff Electric Rates Panel propose for the Working Capital for Purchase Power component of both the NYSEG and RG&E electric MFC?

A. The Staff Electric Rates Panel recommends that the Working Capital for Purchase Power component be excluded from the MFC.

Q. Do you agree with this recommendation?

A. No. On page 19 of its testimony, the Staff Electric Rates Panel attributes the working capital allowance to delivery service only. However, the Unbundling Policy Statement and Order at page 26 allows working capital to be included as an MFC component. Furthermore, page 42 of the Recommended Decision issued on

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1 March 24, 2003 in the Unbundling Proceeding states the following: "the
2 historical FERC approach to the calculation of working capital for the purpose of
3 setting rates is not controlling. So long as there is a lag between payment for
4 purchased power and the receipt of revenues to cover those payments . . . there is
5 a need for working capital and there will be an associated cost." In addition, in
6 Case 05-E-1222, NYSEG included a Working Capital for Purchase Power
7 component in its electric MFC. Staff did not dispute the inclusion of working
8 capital for purchase power and it was approved by the Commission. Given that
9 the Companies' proposal for including working capital for purchase power in the
10 MFC is consistent with both the Unbundling Policy Statement and Order and the
11 August 23, 2006 Order, our proposal should be adopted by the Commission.

12 Q. Is the Staff Gas Rates Panel's proposal for Working Capital for Purchase Gas
13 consistent with the Staff Electric Rates Panel's proposal for Working Capital for
14 Purchase Power?

15 A. The recommendations are consistent except the Staff Gas Rates Panel states that
16 the Unbundling Policy Statement and Order did not specifically address Working
17 Capital for Purchase Gas.

18 Q. Do the Companies agree with the Staff Gas Rates Panel recommendation on
19 Working Capital for Purchase Gas?

20 A. No. Consistent with the Companies' position on Working Capital for Purchase
21 Power, the Unbundling Policy Statement and Order was intended to be generic on
22 this issue and not electric specific. The Companies continue to recommend a

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1 component for Working Capital for Purchase Power and Purchase Gas be
2 included in the electric and gas MFCs.

3 Working Capital for Commodity Hedges

4 Q. What are the Staff Electric Rates Panel's and Staff Gas Rates Panel's proposals
5 regarding the Working Capital for Commodity Hedges?

6 A. On page 21 of its testimony, the Staff Electric Rates Panel states that the type of
7 hedge and the time lag between when the cost of the hedge is incurred and the
8 recovery of the cost from customers determines whether it is appropriate to
9 include this component. Staff recommends the Companies be allowed to include
10 a working capital component for commodity hedging costs in the MFCs
11 conditioned on a full explanation of the details of the types of hedges used by the
12 Companies. The Staff Gas Rates Panel's recommendation is the same. The
13 electric and gas MFCs continue to reflect the inclusion of working capital
14 associated with the commodity hedge costs as supported by the Companies'
15 Revenue Requirements Panel's rebuttal testimony. Furthermore, the Companies
16 continue to support an annual reconciliation to actual costs for the hedge
17 component of the MFC as well as resetting it annually to reflect a recent twelve-
18 month period.

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1 Working Capital for Underground Storage

2 Q. What is the Staff Gas Rates Panel's recommendation regarding Working Capital
3 for Underground Storage?

4 A. The Staff Gas Rates Panel agrees that Working Capital for Underground Storage
5 should be included in the MFCs. However, Staff and the Companies disagree on
6 how it should be calculated. The Companies propose to calculate the carrying
7 costs of underground storage using the pre-tax cost of capital as reflected in the
8 Companies' December 4, 2009 Update. This practice is consistent with the Joint
9 Proposals agreed to in the last NYSEG gas proceeding (Cases 01-G-1668 and 01-
10 G-1683 - NYSEG Gas Joint Proposal, Appendix C, dated September 12, 2002)
11 and the last RG&E gas proceeding (Case 03-G-0766 - RG&E Gas Joint Proposal,
12 page 11, dated March 9, 2004). The Staff Gas Rates Panel recommends both
13 Companies use the other customer capital rate to calculate carrying charges,
14 which is currently 4.2%.

15 Q. Do the Companies agree with the Staff Gas Rates Panel's proposal for Working
16 Capital for Underground Storage?

17 A. In its rebuttal testimony, the Companies' Revenue Requirements Panel supports
18 the use of the pre-tax cost of capital for calculating carrying costs on the
19 Underground Storage component of the gas MFCs. Exhibit __ (NYSEGECOS-
20 20) Rebuttal and Exhibit __ (RGEECOS-20) Rebuttal reflect working capital on
21 storage based on the respective pre-tax cost of capital supported by the Revenue
22 Requirements Panel for each Company. The Companies continue to support an

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1 annual reconciliation to actual costs for the storage component of the gas MFCs
2 as well as resetting it annually to reflect a recent twelve-month period.

3 Uncollectible Component

4 Q. Are the Staff Gas Rates Panel's and Staff Electric Rates Panel's proposals for the
5 Uncollectible component of the MFCs consistent?

6 A. No. We will therefore address them separately.

7 Q. What is the Staff Electric Rates Panel's proposal for the Uncollectible component
8 of the MFC?

9 A. The Staff Electric Rates Panel proposes setting the Uncollectible component of
10 the MFC using the formula suggested by the Staff Revenue Requirements Panel
11 ("SRRP"). The SRRP recommends using the most recent one year's data to
12 produce an uncollectible percentage. The historical uncollectible expense used
13 should be adjusted by 50% of the new arrears forgiveness program grants, further
14 split between delivery and commodity.

15 Q. Do the Companies agree to the adjustment for the arrears forgiveness program?

16 A. The Companies agree with the theory of the adjustment for the arrears forgiveness
17 program, but do not agree with the calculation of the reduction. Consistent with
18 the revised calculation described in the rebuttal testimony of the Companies'
19 Revenue Requirements Panel, the Companies agree to adjust the Uncollectible
20 component of the MFC for the arrears forgiveness program. The Companies
21 propose to make similar adjustments for the arrears forgiveness program when
22 reconciling and updating the MFC uncollectibles.

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1 Q. What other recommendations does the Staff Electric Rates Panel make regarding
2 the Uncollectible component of the MFC?

3 A. On page 24 of its testimony, the Staff Electric Rates Panel recommends the
4 following: 1) the commodity uncollectible percentage rate will remain fixed until
5 changed by the Commission; 2) the Companies should be allowed to reconcile
6 uncollectibles to the fixed percentage times actual purchase power expense
7 adjusted for the arrears forgiveness program discussed by the SRRP in the
8 following year's MFC; and 3) Staff prefers the Companies calculate the
9 commodity Uncollectible component of the MFC monthly by multiplying the
10 fixed percent by the purchase power costs for each particular month.

11 Q. Do the Companies agree with the Staff Electric Rates Panel's recommendations
12 for the MFC?

13 A. Not entirely. The Companies continue to propose the uncollectible component of
14 the MFC be updated annually based on a recent twelve-month history. In
15 addition, the Companies also continue to propose the uncollectible component be
16 reconciled to actual uncollectible expense at the end of each twelve-month period.
17 Contrary to Staff's position, on pages 23-24 of the Staff Electric Rates Panel's
18 testimony, that the Companies incentive to vigorously pursue collection efforts
19 will be undermined, the Companies have followed this exact procedure for the
20 last several years for both gas MFCs and there is no evidence that the Companies
21 collection efforts have waned. Furthermore, in more than one rate year, gas
22 customers have received refunds related to the over-collection of gas MFC

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1 uncollectible expenses. Under Staff's proposal, if the actual uncollectible
2 percentage for a rate year is less than the fixed percentage, customers are expected
3 to pay more. The Companies would not be opposed to setting the uncollectible
4 component on a monthly basis. However, such an approach would require a
5 change to the current proposed electric MFC service class groupings from large
6 and small to small residential, small non-residential and large.

7 Q. How does the Staff Gas Rates Panel's recommendation differ from the Staff
8 Electric Rates Panel's recommendation for the Uncollectible component of the
9 MFC?

10 A. The Staff Gas Rates Panel recommends that the Companies be allowed to update
11 the uncollectible percentage on an annual basis. However, the Staff Gas Rates
12 Panel also states on pages 50-51 of its testimony that reconciling the
13 uncollectibles component of the MFC is unnecessary. As stated above, the
14 Companies currently reconcile the Uncollectible component of the gas MFCs to
15 actual cost and have done so for several years. The Companies continue to
16 propose the uncollectible component of both the electric and gas MFCs be
17 updated annually and reconciled to actual uncollectible expense each rate year.
18 The Staff Gas Rates Panel also does not make any reference to adjusting the
19 uncollectible component of the MFC for the arrears forgiveness program. As we
20 stated for the electric MFC, the Companies agree to this adjustment as modified
21 by the rebuttal testimony of the Companies' Revenue Requirements Panel.

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1 Q. Does the Staff Electric Rates Panel or Staff Gas Rates Panel have any other
2 recommendations in regard to the MFCs?

3 A. Yes. On pages 22-23 of its testimony, the Staff Electric Rates Panel finds the
4 Companies' proposal to reconcile the administrative component annually for sales
5 variances to be reasonable. The Staff Electric Rates Panel also recommends that
6 if the Commission agrees that the Working Capital for Purchase Power
7 component should be included in the MFC, the Companies should be allowed to
8 reconcile this component for differences between actual and forecasted sales. The
9 Staff Gas Rates Panel is silent on both of these issues. As stated above, the
10 Companies propose inclusion of Working Capital for Purchase Power in the MFC
11 and the annual reconciliation of this component to actual costs for the period.

12 Q. Does the Staff Electric Rates Panel or Staff Gas Rates Panel provide any
13 justification for the differences in their proposals for electric and gas MFCs?

14 A. No.

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

16 A. Yes, it does.

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