

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
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Case 09-G- 0718

**REBUTTAL TESTIMONY OF THE
REVENUE ALLOCATION AND RATE DESIGN PANEL**

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**REBUTTAL TESTIMONY OF THE
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1 Q. Please state the names of the members on this Revenue Allocation and Rate
2 Design Panel ("Panel").

3 A. We are Lori A. Cole, David George, Carl L. King, Brian R. Maloney, Mark O.
4 Marini, Christine M. Stratakos, and Shari M. Wells.

5 Q. Are you the same Panel members that sponsored the Direct Testimony of the
6 Revenue Allocation and Rate Design Panel on behalf of New York State Electric
7 & Gas Corporation ("NYSEG") and the Direct Testimony of the Revenue
8 Allocation and Rate Design Panel on behalf of Rochester Gas and Electric
9 Corporation ("RG&E" with NYSEG, the "Companies") in this proceeding?

10 A. Yes.

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

12 A. We address revenue allocation, rate design, economic development, Purchase of
13 Receivables ("POR") and standby lost revenue issues addressed in the testimony
14 of the New York State Department of Public Service Staff ("Staff") Electric Rates
15 Panel, the Staff Gas Rates Panel, Dr. Alan Rosenberg (on behalf of Multiple
16 Intervenors ("MI")), Dr. Tariq Niazi (on behalf of the New York State Consumer
17 Protection Board ("CPB")) and Mr. Frank Radigan (on behalf of Nucor Steel
18 Auburn ("Nucor")). We will also address the impact of the Staff Electric Rates
19 Panel's proposal to impute transmission revenues into base delivery rates.

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1 Q. Did the Panel file revised exhibits as part of the Companies' update on December
2 4, 2009?

3 A. We did. Each of the electric and gas service class revenue allocation and rate
4 design exhibits were revised to reflect updated revenue requirements and rate year
5 delivery unit forecasts. The exhibits also reflected updates to the delivery
6 function and competitive service prices made by the Companies' Embedded Cost
7 of Service Panels. In addition, for RG&E only, the Transformer Revenues under
8 Other Delivery Revenue Adjustments were revised to remove a double-count of
9 economic development revenues, as reflected in the updates made by the
10 Companies' Deliveries and Revenue Panels.

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

12 A. Yes. The Panel is sponsoring the following exhibits:

- 13 • Exhibit __ (NYSEGRARD-1) Rebuttal and Exhibit __ (RGERARD-1)
14 Rebuttal (presenting the forecast units, current delivery revenues,
15 proposed delivery revenues, revenue increase and percent change by
16 service classification for the electric businesses);
- 17 • Exhibit __ (NYSEGRARD-5) Rebuttal and Exhibit __ (RGERARD-5)
18 Rebuttal (providing the revenue to revenue requirement ratios upon which
19 the allocation of electric revenues to each service classification is based);
- 20 • Exhibit __ (NYSEGRARD-7) Rebuttal and Exhibit __ (RGERARD-7)
21 Rebuttal (presenting the forecast units, current delivery revenues,

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1 proposed delivery revenues, revenue increase and percent change by
2 service classification for the gas businesses);

- 3 • Exhibit __ (NYSEGRARD-11) Rebuttal and Exhibit __ (RGERARD-11)
4 Rebuttal (providing the revenue to revenue requirement ratios upon which
5 the allocation of gas revenues to each service classification is based); and
6 • Exhibit __ (RARD-14) (containing an interrogatory response referenced
7 by the Panel in rebuttal testimony).

8 With the exception of Exhibit __ (RARD-14), these exhibits were updated to
9 reflect the revisions to the NYSEG gas sales units, overall requested revenue
10 increases for all four businesses, and modifications made to the embedded cost of
11 service ("ECOS") and marginal cost of service ("MCOS") studies reflected in the
12 Companies' rebuttal testimony.

13 Q. Does the Panel have any preliminary comments concerning Staff's, MI's, CPB's
14 and Nucor's testimony in this proceeding?

15 A. Yes. The Companies recognize that the final New York State Public Service
16 Commission ("Commission") determination of various issues (including but not
17 limited to the level of the rate increase and cost of service methods to be used)
18 impact the ultimate revenue allocation and rate design in this case. In our initial
19 testimony, however, we recommended certain revenue allocation and rate design
20 constraints which can be applicable regardless of the revenue requirement
21 outcome. For revenue allocation purposes, we proposed that the overall increase
22 allocated to a class be limited to 25% above or below the overall average increase

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1 to the business. Likewise, for rate design purposes (with limited exception), we
2 proposed to limit the increases to customer charges and thereby to individual
3 customer delivery bills to 125% of the overall increase to the service
4 classification. We also proposed a specific methodology for assessing the
5 appropriateness of economic development rates for service classes. We continue
6 to believe that these parameters are appropriate and can be applied for revenue
7 allocation and rate design regardless of the Commission's various determinations
8 regarding cost of service or revenue requirement.

REVENUE ALLOCATION

Use of ECOS and Tolerance Band for Revenue Allocation

11 Q. Do you agree with the Staff Electric Rate Panel's recommendation on page 29 of
12 its testimony that the Companies should base their revenue allocation only on the
13 ECOS study results?

14 A. No, we do not. By using the results of the ECOS and MCOS studies for revenue
15 allocation, the Companies give consideration to both historic (embedded) costs
16 and forward-looking (marginal) costs for revenue allocation purposes.
17 Additionally, the embedded cost analysis is primarily concerned with fairness in
18 revenue allocation, while the MCOS study is primarily designed to achieve
19 efficiency objectives. Considering forward-looking costs in addition to historic
20 costs should move class revenues in the right direction with regard to future costs.
21 Additionally, both fairness and efficiency objectives are appropriate for utility
22 ratemaking. For these reasons, the Companies believe that both studies provide

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1 guidance for the revenue allocation process. Also, RG&E has used both studies
2 in the past with Staff support and the Commission has approved this methodology
3 in prior RG&E rate cases.

4 Q. Do you agree with the Staff Electric Rates Panel's position that the tolerance band
5 should be limited to 15% instead of 20% as proposed by the Companies?

6 A. No. The Companies proposed a 20% tolerance band for two reasons: 1) it is
7 consistent with prior RG&E cases; and 2) given that some changes have been
8 made in the ECOS methodologies employed in NYSEG's recent electric rate case,
9 an increased tolerance band is appropriate. Staff has recognized in prior RG&E
10 cases that a 20% tolerance band reflects the fact that much judgment is often
11 exercised in preparing cost analyses and, therefore, the results are not precise. For
12 the purpose of these cases, where the Companies are moving towards consistency
13 and proposing some changes to methodologies, the Companies believe that use of
14 a 20% tolerance band over a 15% band is justifiable.

15 Q. Did the Staff Gas Rates Panel also recommend using only the ECOS study results
16 and a 15% tolerance band for revenue allocation purposes?

17 A. No.

18 Q. Do you see any reason for the electric and gas revenue allocation methodologies
19 to differ in this regard?

20 A. No.

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1 RG&E TRANSFER OF FIXED PRODUCTION COSTS TO DELIVERY

2 Q. Dr. Rosenberg disagrees with the Company's proposal to move the collection of
3 costs associated with fixed production from the Non-Bypassable Charge ("NBC")
4 to delivery rates. Can you please begin by explaining why the Company currently
5 collects its fixed production costs through the NBC?

6 A. The reason for the collection of fixed production costs in the NBC is stated in
7 Exhibit __ (RARD-14) (response to MI-49 (NYRC-0245)): "[t]he primary
8 reasons for inclusion of fixed generation costs in the NBC in the last case were to
9 facilitate the removal of avoided fixed costs from rates upon the sale of the Ginna
10 nuclear plant and retirement of Russell Station."

11 Q. Has the Ginna nuclear plant been sold and the Russell Station plant retired?

12 A. Yes. As further stated in the response to MI-49 (NYRC-0245): "[t]he Ginna
13 Station sale and Russell Station retirement have been completed and the NBC has
14 been reduced accordingly. RG&E proposes to move all of the remaining fixed
15 production costs currently in the NBC to delivery rates." The majority of the
16 remaining production costs are associated with RG&E's run of the river hydro
17 production facilities and other supply-related regulatory assets and liabilities.

18 Q. Why does the Company propose to move the remaining fixed production costs
19 from the NBC to delivery rate?

20 A. These costs are supported by all delivery customers and were only put into the
21 NBC to facilitate the sale of Ginna and retirement of Russell Station. Recovering

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1 these costs in delivery rates is also consistent with the manner in which similar
2 costs are collected in NYSEG delivery rates.

3 Q. Do you agree with Dr. Rosenberg's claim that fixed production costs are not
4 delivery costs and should therefore not be recovered in the same charge?

5 A. No. The reason they are not currently included with delivery costs is explained
6 above. However, they are costs that are part of the Company's total revenue
7 requirement and, therefore, must be collected from all customers. The movement
8 of the fixed production costs into delivery rates will have no effect on the fact that
9 these costs will continue to be recovered from all delivery customers.

10 Q. What is your position regarding Dr. Rosenberg's proposal to allocate the
11 requested revenue increase for each service class based on present delivery
12 revenues excluding fixed production costs?

13 A. Dr. Rosenberg's proposal should be rejected. Present delivery revenues after
14 adjustment for the inclusion of fixed production costs is an appropriate basis for
15 allocating the proposed increase, is consistent with the manner in which such
16 costs are treated in the ECOS study and is consistent with NYSEG's revenue
17 allocation proposal.

18 Q. Dr. Rosenberg relies on the fact that RG&E's Marginal Cost of Service study does
19 not include production costs to support his point that the Embedded Cost of
20 Service Study should also exclude these costs. Would you care to comment?

21 A. Yes. Dr. Rosenberg leaves the impression that the ECOS and MCOS studies have
22 to be comparable. That is simply not true. Embedded costs reflect the books and

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1 records of the Company at a point in time. In contrast, marginal costs are
2 forward-looking. The embedded and marginal costs would be comparable only
3 by coincidence. As stated above, ECOS and MCOS studies have different
4 primary objectives, but both objectives are important in utility ratemaking and
5 both studies provide results that can be used as guides in setting class revenue
6 allocations, which is what the Companies have proposed. One could debate the
7 use of the studies for such purposes, but the studies are dealing with different
8 costs and have different primary purposes. The fact that component parts differ
9 across the studies should not come as a surprise, and Dr. Rosenberg's arguments
10 to the validity of including production related costs in the ECOS study should be
11 rejected.

12 Q. Dr. Rosenberg states that if the Commission agreed with the Company's proposal
13 to move the costs associated with fixed production from the NBC to delivery, a
14 distinct charge should be instituted in the tariff for the express purposes of
15 recovering the fixed production charges. Is a distinct charge necessary?

16 A. No, it is not. As stated earlier, all customers pay for these costs regardless of
17 commodity supplier. There is no benefit to having a separate charge identifying
18 fixed production costs. In fact, doing so could serve to cause additional
19 unnecessary confusion for customers.

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1 Q. Do you have any comments on page 12 of Dr. Rosenberg's RG&E testimony,
2 where he says the NBC is somewhat of an anachronism, stemming in large part
3 from the sale of Ginna and retirement of Russell Station?

4 A. The NBC is certainly not an anachronism. The sale of Ginna and the retirement
5 of Russell Station do not eliminate the need for an NBC. As explained above, the
6 current NBC is unique in its inclusion of a component to handle fixed production
7 costs. While these fixed production costs will no longer be included, the NBC
8 continues to be a necessary mechanism to recover or pass back the difference
9 between the cost of the Company's supply-related assets and the market value of
10 those assets, which include RG&E's hydro facilities as well as its long term power
11 contracts.

RATE DESIGN

Seasonal Bill Test

14 Q. Do you agree with the Staff Electric Rates Panel's testimony, on page 7, that
15 NYSEG's method of calculating the minimum amount of delivery revenues for
16 seasonal customers on the basis of the customer's total annual billed dollars is
17 influenced by the price of commodity and other charges on the bill?

18 A. Yes. The seasonal bill test, based on total revenues, has been in place since long
19 before the Company unbundled its rates and bills. The test was not changed when
20 the delivery rates were unbundled in previous rate cases. Therefore, changes in
21 the commodity and other charges impact the amount of dollars applied for testing
22 whether seasonal customers meet the minimum bill test.

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1 Q. Do you agree with Staff's proposal that the minimum delivery revenues for the
2 purposes of seasonal customers should be the sum of the monthly customer
3 charges of the applicable service class and the monthly Bill Issuance and Payment
4 Processing ("BIPP") charge, times twelve?

5 A. Yes.

6 Seasonal Demand Charges

7 Q. Do you agree with Dr. Rosenberg's proposal that NYSEG should implement
8 seasonal delivery charges?

9 A. No. Dr. Rosenberg at page 31 of his testimony says that NYSEG should
10 implement seasonal demand charges because "at least one other New York utility
11 employs that format" and that it is appropriate for NYSEG given "the dual
12 peaking (winter and summer) nature of their system." Dr. Rosenberg is
13 apparently tying this rate design proposal to his testimony relating to the
14 allocation factor used to allocate transmission costs in the ECOS study. The
15 inappropriateness of his proposal regarding the allocation of transmission costs is
16 addressed in the Companies' Embedded Cost of Service Panel rebuttal testimony.
17 Since there is no cost basis for such a proposal, there is no reason to implement
18 such a change in NYSEG's rate structure. The statement that another New York
19 utility utilizes Dr. Rosenberg's proposed format is of no consequence.

20 Eliminate Energy Charges for kW Customers

21 Q. Do you agree with the Staff Electric Rates Panel's testimony, on page 32, that it is
22 appropriate to eliminate or reduce energy rates from NYSEG service classes with

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1 both demand and energy charges or with Dr. Rosenberg's testimony, on page 31,
2 that the additional delivery dollar increases for service classification 7 ("SC")
3 customers that are not picked up with increased customer charges should be
4 collected through increases to the fixed demand charges?

5 A. In theory, we agree with both Staff and Dr. Rosenberg that the ultimate goal
6 would be to eliminate the delivery kWh charges for demand-billed service classes.
7 However, bill impacts associated with the increase, as well as with the proposal to
8 return the Industrial/High Load Factor ("I/HLF") sub-classes to their appropriate
9 service class, caused the Company to propose collection of the delivery increase
10 from all rate components to mitigate the bill impact for the lower load factor
11 customers in the demand-billed service classes. On page 21 of his testimony, Mr.
12 Radigan also supports the elimination of the delivery energy charges for demand
13 customers, but recognizes the potential rate impacts on the low load factor
14 customers. He suggests that, in order to mitigate rate impacts, the increase to the
15 demand charge should be limited to 1.5 times the class average increase with any
16 remaining revenues collected through increased energy charges. Given that Staff
17 and the two large customer advocates in this proceeding have all proposed
18 elimination of kWh delivery charges, the Company could agree to modify the rate
19 design for demand-billed sub-transmission and transmission customers, as
20 suggested by Mr. Radigan. The demand charges for the other demand-billed
21 classes would increase toward the limit of 1.5 times the overall class average
22 suggested by Mr. Radigan while limiting the increase as necessary to maintain the

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1 kWh charge relationship among the remaining demand-billed service classes.
2 Further reduction, or even elimination, of energy charges for demand-billed
3 classes could be considered after the completion of the I/HLF phase-in.

4 Rate Development for NYSEG SC 7-3 and RG&E SC 8 Sub-Transmission

5 Q. Do you agree with Dr. Rosenberg's testimony, on page 20, that the same unit
6 marginal cost values were used for NYSEG SC 7-3 (sub-transmission voltage)
7 subclass as were used for SC 7-2 (primary voltage) subclass to derive the
8 marginal cost ratio for the SC 7-3 class?

9 A. Yes. NYSEG used SC7-2 prices to design rates for NYSEG SC 7-3.

10 Q. Do you agree with Dr. Rosenberg that in the absence of the SC 7-3 that SC 7-4
11 marginal costs are far better proxies for SC 7-3 than the values for SC 7-2?

12 A. No. However, before addressing why it is inappropriate to assess the adequacy of
13 the rates for this class based on SC 7-4, it must be pointed out that NYSEG should
14 have included in its initial filing, a proposal regarding grandfathering of the sub-
15 transmission class (SC 7-3), as did RG&E. NYSEG's exclusion of a similar
16 proposal may have contributed to Dr. Rosenberg's proposal.

17 Q. Please explain why it is therefore appropriate to use SC 7-2 for assessing the SC
18 7-3 rates?

19 A. Given the premise that the customers remaining (grandfathered) in the SC 7-3
20 class consist of customers served at a mix of regulated and unregulated voltages,
21 none of which would meet the requirements for transmission service, it would be
22 inappropriate to compare the current rates to SC 7-4 efficient prices. Doing so

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1 would only result in a greater divergence of the rates for the primary service class,
2 and the grandfathered SC 7-3 class.

3 Q. Please explain why it's appropriate to use SC 8 Primary efficient prices for
4 assessing the SC 8 Sub-Transmission (Industrial and Commercial) classes for
5 RG&E, and not SC 8 Transmission efficient prices, as Dr. Rosenberg suggests.

6 A. RG&E has proposed grandfathering the SC 8 Sub-Transmission classes.
7 Customers in the Sub-Transmission classes do not meet the requirements for
8 Transmission service; therefore, it would be inappropriate to compare those
9 classes to the SC 8 Transmission efficient prices. Doing so would only result in a
10 greater divergence of the rates for the SC 8 Primary class and the grandfathered
11 SC 8 Sub-Transmission classes.

12 Q. Do you agree with Dr. Rosenberg's statement that there is no apparent difference
13 in the cost-causation characteristics between SC 8 Sub-Transmission –
14 Commercial and Sub-Transmission – Industrial subclasses?

15 A. Yes.

16 Q. Do you agree that these subclasses could be combined?

17 A. Yes.

18 Q. How would you propose implementing this?

19 A. Since RG&E proposes to eliminate the sub-transmission class for new customers,
20 combining the subclasses would only affect the current Sub-Transmission
21 Commercial and Industrial customers that would be grandfathered. The Company
22 would propose combining the rates of the customers in the current Sub-

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1 Transmission classes and any rate increase would be applied to the combined
2 class.

3 Flattening of Energy Charges

4 Q. On page 32 of its testimony, the Staff Electric Rates Panel states that energy
5 delivery charges should be flattened as shown on ERP-5 for SC 8, 9 and 12 for
6 NYSEG and on ERP-6 for SC 4-I, 4-II, 7 and 9 for RG&E? Do you agree?

7 A. No. The marginal cost of service studies for both Companies show that the
8 delivery costs vary by period, which supports maintenance of current kWh rate
9 period differentials for these small non-demand billed classes. Even if one were
10 to disregard the marginal cost studies, there are other matters that should be
11 considered further before flattening the delivery kWh charges for these classes.
12 First, depending on the size of the increase that is granted by the Commission, the
13 impact on customers with a greater percentage of night or off-peak usage in a
14 class could be significant. Additionally, with flat delivery kWh charges,
15 customers in time differentiated residential classes that are negatively impacted by
16 the flattening of rates could take advantage of the option to take service under the
17 residential regular class. The unit forecast used for establishing delivery revenue
18 requirement does not reflect a potential shift in units by SC that could occur as a
19 result of flattening rates. Another area that should be assessed prior to flattening
20 the delivery kWh charges is whether and, if so, how the flattening of delivery
21 rates should impact commodity price choices and setting for the small customers
22 that choose to take commodity from the Company. After resolving the issues

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1 listed above, a customer outreach and education plan would have to be developed
2 and implemented, so that customers would understand the changing relationship
3 between usage decisions and bill impacts. The Companies therefore recommend
4 that the Commission reject the flattening of delivery kWh charges for the small
5 non-demand billed customer classes in this case. The Companies would commit
6 to address this issue in their next rate cases.

7 Consolidation of I/HLF and Non-HLF Subclasses

8 Q. Do you agree with Dr. Rosenberg that the phase-in period for the elimination of
9 I/HLF rates should be eight years or with Mr. Radigan's testimony that it be
10 deferred to a subsequent rate case or extended over a more prolonged time frame?

11 A. No. As stated on page 15 of our Direct Testimony, as far back as 2006, the
12 Administrative Law Judge in the NYSEG electric rate case (Case 05-E-1222)
13 recognized that the I/HLF rates were a mistake and recommended at that time that
14 gradual steps be taken to correct the incorrect rate design. Even with the
15 Companies' proposed five-year phase-in, the I/HLF rates will not be eliminated
16 until 2015 - nine years after the concern was raised. This group of customers has
17 had more than enough time to prepare for what has to be an expected increase in
18 rates and, given the Company's phase-in, should be able to accommodate the
19 known changes.

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1 Q. Can you specifically comment on Mr. Radigan's testimony regarding NYSEG's
2 tariffed economic development rates?

3 A. Yes. Mr. Radigan claims that the only economic development rates that NYSEG
4 has are the I/HLF subclass rates. That is simply not true. The Company offers
5 standard economic development rate discounts for those classes in which the
6 marginal cost-based revenues do not exceed the proposed base delivery revenues
7 for the class. Based on the rebuttal exhibits, NYSEG would continue to offer
8 Economics Development Zone Incentive ("EDZI") incentive rates to SC 3P, 3S
9 and 7-1 and Incremental Load Incentive rates to SC 3P, 3S and 7-1. Additionally,
10 the Company's economic development programs continue to include flex rate
11 contracts that allow the Company to offer individual service agreements to
12 eligible customers that have a viable alternative to NYSEG delivery service, as
13 well as non-rate programs, all designed to promote economic development.

14 Customer Charges

15 Q. Did you review the testimony of the Staff Electric Rates Panel, Staff Gas Rates
16 Panel and CPB witness Niazi regarding residential customer charge increases?

17 A. Yes. Staff and CPB propose less of an increase than the Companies proposed for
18 the residential customer charges. The Staff Electric Rates Panel testifies that the
19 residential customer charge increases should be limited to \$2.00 at NYSEG (page
20 31) and \$1.00 at RG&E (page 32). While the Staff Electric Rates Panel
21 references both the ECOS and MCOS studies as a guide, it provides no rationale
22 for that specific limitation. The Staff Gas Rates Panel recommends that the

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1 heating and non-heating customer charges be increased by \$2.00 per month for
2 NYSEG SC 1S and 13T. For RG&E, the Staff Gas Rates Panel recommends an
3 increase of \$1.92 per month for SC 1 and 5.

4 Q. Please describe Staff Gas Rates Panel's rationale for their proposed customer
5 charge increases for the Companies?

6 A. The Staff Gas Rates Panel appears to base its recommendations on the following:
7 1) a belief that the bill impacts of the Companies' proposals on residential
8 customers are too great; 2) a contention that when the customer charges for
9 residential customers approach the embedded customer costs, the Companies
10 recover costs regardless of the quality of service provided and that they therefore
11 lose some incentive to provide good service; and 3) a belief that the residential
12 heating customer charges for NYSEG and RG&E should be the same in support
13 of a longer term goal of common rates for both Companies.

14 Q. Do you agree with the Staff Gas Rates Panel's rationale for the proposed customer
15 charge increases?

16 A. No. The Companies recognized bill impacts in their designs by limiting the
17 customer charge increases to 125% of the overall class increase, rather than
18 moving all the way to the efficient prices supported in the marginal cost studies.
19 The Companies continue to support the constraints proposed in their Direct
20 Testimony. Staff's contention that fully cost-based customer charges remove the
21 incentive for the Companies to provide good service is unsupported by any
22 evidence. Further, the Commission has imposed other means of encouraging

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1 good service through the imposition of service quality measures with associated
2 revenue adjustments. Rate design is not the appropriate place to address service
3 quality issues. Lastly, Staff claims that their proposal to set residential heating
4 customer charges at the same level for NYSEG and RG&E will aid in a longer
5 term goal of common rates for both Companies. The Staff Electric Rate Panel at
6 page 33 of its testimony and the Staff Gas Rates Panel at page 37 of its testimony
7 claim that the Companies "mentioned throughout their testimony the desire to
8 ease the rate administration by bringing the rates of NYSEG and RG&E close
9 together." The Companies made no statement in their testimony that bringing
10 rates of the Companies together is a goal. Rather, the Companies state that rates
11 should be based on cost of service (with other considerations), which would likely
12 preclude establishment of equivalent service class rates at the two Companies.
13 The Companies have made proposals in this case in an effort to obtain
14 consistency in methodology and even some tariff provisions.

15 Q. Can you please respond to Dr. Niazi's recommendation?

16 A. For both Companies, Dr. Niazi recommends that the residential electric customer
17 charge and the residential gas first block charges be increased in proportion to the
18 overall electric and gas delivery increases approved by the Commission. The
19 basis for his recommendation is related to his testimony that the costs of local
20 facilities should not be included in the efficient prices against which currently
21 effective customer charges are compared for rate-setting purposes. Witness
22 Parmesano addresses this in her rebuttal testimony, which provides support for the

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1 Companies' initially filed rate design parameters and increases in the residential
2 customer charges.

3 Gas Supply Area Consolidation

4 Q. Is the Panel willing to accept Staff's alternative proposal regarding the
5 consolidation of NYSEG's three Gas Supply Areas ("GSA")?

6 A. No.

7 Q. Please explain.

8 A. Staff proposed a transitional step to full consolidation by recommending that
9 GSA1 and GSA3 be combined now. Staff further recommended that GSA2
10 should be consolidated only if some convergence of demand charges can be
11 demonstrated and that this not occur until a future rate case. We continue to
12 propose that the Company be able to consolidate all rate areas based on Exhibit __
13 (NYSEGRARD-9), pages 1 through 3. A look at the rate year overall gas cost
14 rate for each supply area versus the proposed overall consolidated gas cost rate
15 reveals that GSA1 will decrease 0.289%, GSA2 will increase 0.9636% and GSA3
16 will decrease 9.914%. The overall consolidated rate offers a great benefit to
17 GSA3, while GSA1 and GSA2 are effectively neutral.

18 Rate and Tariff Administration

19 Q. Both the Staff Electric Rates Panel and Staff Gas Rates Panel state the Companies
20 mentioned throughout their testimonies their desire to ease rate administration by
21 "bringing aspects of the tariffs of NYSEG and RG&E closer together" (Electric
22 Rates Panel, page 33) and "by bringing the rates of NYSEG and RG&E closer

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1 together" (Gas Rates Panel, page 37). Can you please clarify what the Companies
2 meant by their desire to ease rate administration?

3 A. As stated in our Direct Testimony for each Company, we considered making the
4 Companies' proposals consistent in order to ease rate and tariff administration
5 where appropriate and to the extent feasible. This applies to the revenue
6 allocation and rate design methodologies put forth in these cases, and includes
7 similar or identical language proposed in each Company's respective tariffs, as
8 appropriate.

9 Q. The Staff Electric Rates Panel recommends the Companies be required to
10 examine the service classifications for all types of electric customers with the goal
11 of developing consistent service classes, and to provide a plan in their next base
12 rate filings to implement any restructuring. Do the Companies agree with Staff's
13 recommendation for such an examination and the requirement to submit a plan for
14 service class restructuring in their next rate cases?

15 A. After the issuance of an Order in these cases, the Companies would be willing to
16 meet with Staff and discuss where it may be appropriate to develop consistent
17 provisions of service classifications. Consequently, Staff's proposal that the
18 Companies submit a plan in their next rate cases will not be necessary.

**REBUTTAL TESTIMONY OF THE
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1 Q. On page 33 of its testimony, the Staff Gas Rates Panel proposes the same
2 customer charges for the residential heating classes at both Companies because
3 "[t]his aids in the longer term goal of common rates for both Companies." Please
4 comment on the goal of common rates at both Companies.

5 A. The goal of the rate setting process is to set rates that are based on each
6 Company's respective costs to serve and not to set rates in such a manner so that
7 each Company has the same rates for similar service classes absent such cost
8 support.

9 Q. The Staff Gas Rates Panel recommends that the single rate structure of RG&E for
10 all types of gas customers needs to be examined and restructured into separate
11 service classes, and the Company be required to provide a plan in conjunction
12 with its next gas rate case filing. Does RG&E agree with Staff's
13 recommendation?

14 A. Yes. The Company agrees that an examination of RG&E gas SC 1 is warranted.
15 The Company would agree to provide the results of its analyses and its
16 recommendation related to restructuring of SC 1 into separate service classes in
17 its next gas rate case. Such a plan will include the costs of any system changes
18 needed to implement any service class restructuring.

19 Economic Development

20 Q. Did you review the Staff Gas Rates Panel's testimony regarding economic
21 development rates?

22 A. Yes.

**REBUTTAL TESTIMONY OF THE
REVENUE ALLOCATION AND RATE DESIGN PANEL**

1 Q. Can you summarize Staff's recommendation regarding gas economic development
2 rates?

3 A. The Staff Gas Rates Panel recommends that the Commission reject the
4 Companies' proposals to discontinue the availability of EDZI (NYSEG) and
5 Economic Development Zones ("EDZ") (RG&E) rates to customers that are
6 located in zones and qualified for zone benefits after the effective date of new
7 rates in this case and that it require the currently effective discounts to continue.
8 Our understanding of the Staff Gas Rates Panel's rationale for this
9 recommendation is that: 1) the incremental cost to provide an additional gas
10 delivery unit to customers is essentially zero; 2) the cost of facilities and, for the
11 most part, the Operations & Maintenance expenses to serve gas customers do not
12 vary based on incremental usage by those customers; 3) the addition of new load
13 does not require significant upgrades of the system unless the new load is
14 extremely large; 4) current regulations require some portion of incremental
15 investment to serve the customers discussed in 3) above to be provided by the
16 customer; and 5) the Gas Rates Panel is unaware of any major distribution
17 capacity constraints.

18 Q. Do you agree with Staff's recommendation?

19 A. No. First, Staff has provided no studies to support any of the reasons for their
20 proposal. The Company, however, based its proposal on the MCOS studies
21 supported by Dr. Parmesano, who rebuts the Gas Rates Staff Panel testimony on
22 this issue. Furthermore, both Companies have gas (and electric) tariffs that allow

**REBUTTAL TESTIMONY OF THE
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1 them to enter into individual service agreements with customers that have a viable
2 alternative to the Company delivery service. In those cases, the Companies look
3 at the individual customer circumstances. For those rates that are applicable
4 across the service area, the Company continues to support the use of the system-
5 wide marginal costs as discussed by Dr. Parmesano. Finally, only the Staff Gas
6 Rates Panel recommended that the Commission reject the discontinuance of zone
7 rate incentives for new customers. The Staff Electric Rates Panel agreed with the
8 Companies' proposals.

9 Q. Did any other parties object to the Companies' economic development proposals?

10 A. Not directly. Nucor Witness Radigan, however, stated on page 18 of his
11 testimony, that NYSEG has no tariffed economic development rates other than the
12 I/HLF sub-class rates. As we discussed earlier, Mr. Radigan is incorrect.

POR

14 Q. Do you agree with Staff's recommendation to reflect commodity-related credit
15 and collections and a portion of call center costs in the POR discount rate?

16 A. Yes. Staff raises a valid concern that a retail access customer taking service from
17 an ESCO that participates in the Companies' POR programs would
18 inappropriately avoid commodity-related credit and collections and a portion of
19 call center costs. Staff offers two possible remedies and recommends that the
20 POR discount rate should be adjusted to recognize these costs and that revenues
21 retained related to credit and collections and call center be credited to full service
22 customers. The Companies accept Staff's alternative to include a commodity

**REBUTTAL TESTIMONY OF THE
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1 related credit and collections adder to the discount rate and agree with Staff's
2 recommended remedy.

3 Q. Staff proposes no POR discount rate reconciliation, true-up, deferral, or annual
4 rate reset, yet does agree with elimination of the 0.15% financial risk adder. Do
5 you agree with these proposals?

6 A. No. The Companies believe retail energy markets are now sufficiently mature
7 and, thus, the utility should not bear any financial risk (nor reap any financial
8 reward) associated with the ESCO's commodity uncollectibles. Thus, we
9 interpret a reconciliation and true-up of the discount rate paid to ESCOs for the
10 purchase of their receivables to be a fair and balanced approach to maintain
11 revenue neutrality. Further, the Commission's Order Determining Future of
12 Retail Access Programs in Case 07-M-0458, issued and effective October 27,
13 2008, states at page 8 that with respect to the retail access platform, "generally,
14 on-going costs associated with POR programs are funded by ESCOs through
15 either a discount rate applied by the utility to the ESCO's receivables or a lower
16 merchant function charge (MFC)"; uncollectibles are clearly one of the primary
17 on-going costs associated with a POR program.

**REBUTTAL TESTIMONY OF THE
REVENUE ALLOCATION AND RATE DESIGN PANEL**

STANDBY SERVICE

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Q. Do you have any overall concerns about changing the standby rate design methodology at this time?

A. Yes. The Commission has continued to limit the customers to whom the standby rates are actually applicable. First, certain customers with designated technologies can choose to avoid the standby rates altogether and take service under the otherwise applicable service class ("OASC") rates. Additionally, other customers are in the process of an eight-year phase-in to standby rates. Consequently, both Companies have a limited number of customers subject to the rates established based on the guidelines provided in the Commissioner's Opinion No. 01-4, Opinion and Order Approving Guidelines for the Design of Standby Service Rates in Case 99-E-1470, issued and effective October 26, 2001 ("Opinion No. 01-4"). The Companies believe that standby rate changes should not be considered at least until the phase-in is completed and new customers are required to take service under the full standby rates.

NYSEG Standby Rates

Q. Do you agree with Dr. Rosenberg's statement on pages 31-32 of his testimony that Opinion No. 01-4 established the principal guidelines for designing standby rates in New York?

A. Yes. Opinion No. 01-4 established the principal guidelines for the design of standby service rates. Those guidelines provided the basis for the 2002 proceeding to set NYSEG's Standby rates (Case 02-E-0779), which resulted in

**REBUTTAL TESTIMONY OF THE
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1 NYSEG's Standby Joint Proposal ("Standby JP") filed on April 7, 2003 and
2 approved by the Commission's Order Establishing Electric Standby Rates, issued
3 and effective July 30, 2003 ("Standby Order").

4 Q. On page 33 of his testimony, Dr. Rosenberg provided a table and footnote
5 showing the percent to be recovered by the Contract Demand and As-Used
6 Demand charges. Is this consistent with the Standby JP?

7 A. Yes. Dr. Rosenberg's table shows the allocation for the contract demand included
8 in the Standby JP Table 1 that also includes the as-used demand percentage
9 allocations for the "Allocation of Non-Customer Costs Revenue Requirement."

10 Q. Was the Standby JP supported by Multiple Intervenors?

11 A. Yes. The Standby JP was supported by a number of parties, including Multiple
12 Intervenors, and was followed by two rounds of testimony, an evidentiary hearing
13 and two rounds of post-hearing briefs. The final adopted Standby JP prescribed
14 the allocation of costs between as-used demand charges and contract demand
15 charges.

16 Q. Do you agree with Dr. Rosenberg's position on pages 34-35 of his testimony that
17 the standby rates are discriminatory against standby customers or that contract
18 demand charges are higher and the as-used demand charges lower than they
19 should be?

20 A. No. There were extensive discussions on the methodology and level of contract
21 demand and as-used demand during the 2003 proceedings that included the
22 appropriate allocation percentages. In fact, the contract demand allocation

**REBUTTAL TESTIMONY OF THE
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1 percentage was lowered during negotiations. The Standby Order noted on page 6,
2 "as compared with the June 2002 tariffs, the Joint Proposal's standby rates would
3 decrease contract charges and increase as-used charges to the benefit of an [on-
4 site generation] customer that manages its operations so as to avoid contributing
5 to system coincident peaks." Several parties argued that the proposed contract
6 demand remained excessive but the Standby Order stated on page 7, "[o]n this
7 record, neither opponent offers a cost allocation proposal that commends itself as
8 more balance, better supported or otherwise more reasonable than the Joint
9 Proposal."

10 Q. Dr. Rosenberg's NYSEG testimony, on page 34, states that lumping the energy
11 revenues together with demand revenues is problematic; on page 35, that the
12 contract demand charges should not include the energy-related revenues; and, on
13 page 35, that the energy-related revenue should be removed with the customer
14 and reactive revenue prior to applying the allocating revenues to develop the
15 service class contract demand revenue requirement. Do you agree with Dr.
16 Rosenberg's assertions?

17 A. No. The Standby JP, Table 1 is clear that the allocation factors should be applied
18 to the "Allocation of Non-Customer Costs Revenue Requirement." This is
19 consistent with the initial steps in NYSEG's standby rate design, as correctly
20 summarized by Dr. Rosenberg's Steps 1 and 2 (on page 33 of his testimony)
21 which include taking the service class total revenues, removing the customer
22 charge (customer costs) and reactive voltage charge (which standby customers

**REBUTTAL TESTIMONY OF THE
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1 continue to pay), and applying the adopted allocation percentages to the
2 remaining non-customer service class revenue requirement.

3 NYSEG Standby Lost Revenue

4 Q. Have you reviewed the Staff Electric Rates Panel's testimony with regard to the
5 level of NYSEG's standby lost revenues withdrawn from the Asset Sale Gain
6 Account ("ASGA") for the years 2004 through 2006?

7 A. Yes. The Staff Electric Rates Panel's testimony, on page 49, states that "NYSEG
8 incurred lost revenue because existing standby service customers have been
9 charged standby rates that are lower than the rate they would have been charged
10 under the otherwise-applicable tariff rate" is accurate.

11 Q. Did NYSEG report in annual compliance filings, for the years 2004 through 2006,
12 total lost revenues of \$8,101,862 as stated on page 49 of the Staff Electric Rates
13 Panel's testimony?

14 A. Yes. NYSEG reported that number to the Commission.

15 Q. Does Staff take exception to NYSEG's calculation of the amount of lost revenues?

16 A. Yes. The Staff Electric Rates Panel questions the OASC rate that NYSEG used in
17 calculating the amount of lost revenues related to Cornell University.

18 Specifically, Staff argues that NYSEG inappropriately used the SC 7

19 Transmission non-I/HLF rate as the OASC in calculating lost revenues for

20 Cornell for the period April 2004 through December 2006. Staff further states

21 that NYSEG should have continued to use the SC 7 Transmission I/HLF rate as

22 the OASC despite the fact that Cornell's load factor fell below the threshold 68%

**REBUTTAL TESTIMONY OF THE
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1 load factor that the I/HLF tariff requires for classification as an I/HLF customer.
2 Based on that assumption, Staff calculated an ASGA adjustment amount, which
3 the Staff Revenue Requirement Panel included in its proposed adjustment to
4 NYSEG's ASGA balance.

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

6 A. No. Staff takes the position that the lost revenue calculations associated with
7 Cornell University should be based on a rate at a single point in time, and should
8 not reflect any changes in rates associated with the customers declining load
9 factor. NYSEG contends that, pursuant to NYSEG's Standby JP approved by the
10 Standby Order, the otherwise applicable rate should be the rate that Cornell would
11 have been paying under the OASC, given the actual load factor by the customer.

12 Q. How often does NYSEG review its I/HLF customer list for continued eligibility?

13 A. NYSEG reviews its accounts annually to verify continued qualification based on
14 usage during the previous year. We note that customers meeting the tariff
15 qualifications for the I/HLF rate can shift to that rate at any time during the year.

16 Q. Did NYSEG calculate the lost revenues for its other standby customers based on
17 the otherwise applicable rate as that rate changed based on a customer's
18 consumption?

19 A. Yes.

**REBUTTAL TESTIMONY OF THE
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1 Q. Has Staff been aware of NYSEG's calculation methodology over the past several
2 years?

3 A. Yes. NYSEG first provided the detailed workpapers supporting the lost revenue
4 calculation for Cornell (and other customers) in an October 3, 2005 response to a
5 data request from Staff. In each of the following two years, NYSEG provided
6 similar back-up data to Staff for the 2005 and 2006 calendar years.

7 RG&E Standby Service

8 Q. Dr. Rosenberg begins his testimony on standby service by recounting the
9 principles established by the Commission in Opinion No. 01-4 on standby rate
10 design. Do you agree with his statements?

11 A. Generally, yes. However, in describing the third principle, revenue neutrality, he
12 says that once the contract demand charge is established, the as-used charge is a
13 fall-out, or that it is forced. This is not true. Contract demand charges and as-
14 used demand charges are set in accordance with the methodology approved by the
15 Commission's Order Establishing Electric Standby Rates for RG&E in Case 02-E-
16 0551 issued and effective July 29, 2003, which marks up marginal cost based
17 revenues by service class (except for FERC transmission) to recover the total
18 revenue requirements by service class in order to determine the standby rate
19 components for customer, contract and as-used charges.

**REBUTTAL TESTIMONY OF THE
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1 Q. Dr. Rosenberg states that it appears that for SC 14 as a whole, delivery rates
2 would increase by 49 percent, whereas the Company is requesting a system
3 average increase in delivery rates of 26 percent. Is this true?

4 A. No. The Company's proposed increase to the standby service class is the same
5 percentage as other electric (non-street lighting) service classes, 18.8%, as can be
6 seen on Exhibit _ (RGERARD-1) 12/4/09 Update.

7 Q. Dr. Rosenberg testifies that there are several problems with the Company's
8 proposed standby rates. Do you agree with his statements?

9 A. No, we do not.

10 Q. Please comment on the first problem he cites regarding the proposed revenues of
11 the SC 8 OASC.

12 A. Dr. Rosenberg says the proposed revenues for SC 8 OASC are too high, the same
13 claim he makes earlier in his testimony where he objects to the Company's
14 combining delivery and fixed production costs prior to allocation of the proposed
15 increase. The Panel has addressed this issue and reiterates that delivery revenues
16 including fixed production costs is the appropriate basis for allocating the
17 proposed revenue increase.

18 Q. What is the second alleged problem raised by Dr. Rosenberg?

19 A. He says the Company's MCOS study, which is the basis for setting the standby
20 rate components, is suspect. Dr. Parmesano's rebuttal testimony properly
21 addresses Dr. Rosenberg's issues regarding the MCOS study. The MCOS study is
22 not suspect.

**REBUTTAL TESTIMONY OF THE
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1 Q. Do you agree with Dr. Rosenberg's statement at page 31 of his testimony that "the
2 primary problem is that RG&E included NBC charges in calculating the 'Mark-
3 Up' that is defined in the JP formula. Of course, the JP never envisioned the
4 proposed transfer of production revenues into a delivery charge?"

5 A. No, the mark-up was agreed to in the referenced Joint Proposal and is necessary
6 to recover the full revenue requirement. The standby rates must include the
7 recovery of the production costs in order to maintain revenue neutrality.

8 Q. Please comment on Dr. Rosenberg's statements at page 31 of his testimony that
9 the increases do not appear to be consistent: "For example, the current contract
10 demand charge for customers with an OASC of SC 8 Substation is \$0.68 per kW,
11 while the proposed contract demand charge is \$1.74 per kW, an increase of
12 almost 150 percent."

13 A. Dr. Rosenberg's statements are incorrect. In making his comparison against the
14 current rate in effect, he is only looking at the delivery component of the contract
15 demand charge. In accordance with the March 9, 2004 Electric Rate Joint
16 Proposal approved by the Commission's Order Adopting Provision of Joint
17 Proposals with Conditions in Cases 03-E-0765, 02-E-0198 and 03-G-0766, issued
18 and effective May 20, 2004, the current standby rates contain two components
19 that make up the contract demand charges: the delivery component and the NBC
20 component. Added together, these components make up the total contract
21 demand charge. While the delivery component is \$0.68 for the Sub-
22 Transmission-Industrial and Sub-Transmission-Commercial subclasses (we

**REBUTTAL TESTIMONY OF THE
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1 assume Dr. Rosenberg meant to refer to the SC 8 Sub-Transmission classes and
 2 not the SC 8 Substation class in his statement), the total contract demand rate for
 3 2009 was \$0.89. For 2010, the total contract demand rate is \$3.12. So, the
 4 proposed contract demand charge of \$1.74 for the rate year in the rate filing
 5 actually represents a decrease from the current rate in effect. However, to
 6 compare apples to apples, the table below breaks out the components of the
 7 contract demand charge for the SC 8 Sub-Transmission subclasses. For the 2009
 8 and 2010 contract demand rates, the NBC component is further broken down into
 9 a fixed production component and a commodity component. For the rate year, the
 10 Company has proposed to exclude the NBC commodity component in the
 11 contract demand charge and instead apply the same NBC charge that is charged to
 12 the standby customer's OASC.

SC 8 Sub-Transmission - Ind. & Comm.	(A) Contract Demand Delivery Component	(B) Contract Demand NBC Fixed Production	(C) Contract Demand NBC Commodity Component	(D) (B) + (C) Contract Demand NBC Total	(E) (A) + (D) Total Contract Demand
2009	\$0.68	\$2.41	-\$3.98	-\$1.57	-\$0.89
2010	\$0.68	\$2.35	+\$0.09	\$2.44	+\$3.12
Proposed Rate Year	\$0.64	\$1.10	N/A per kWh; No Longer in Contract Demand	N/A – per kWh; No longer in Contract Demand	+\$1.74

13
 14 Clearly, the proposed contract demand charge for the Sub-Transmission
 15 subclasses is not increasing by almost 150 percent.

16 Q. What about Dr. Rosenberg's statement at page 31 of his testimony that the results
 17 appear peculiar? "For example, the proposed contract demand charge for
 18 customers whose OASC is SC 8 Transmission is \$7.41 per kW. This is even

**REBUTTAL TESTIMONY OF THE
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1 higher than the proposed full requirements (delivery only) demand charge for SC
2 8 Transmission."

3 A. It's not clear what Dr. Rosenberg is referring to because the proposed demand rate
4 for SC 8 Transmission OASC is \$9.37 per kW. Regardless of his statement, one
5 must remember that the OASC demand charge and the contract demand charge
6 are not related so making comparisons, as Dr. Rosenberg attempts to do, is
7 irrelevant. Furthermore, the standby rates are set independently from the standard
8 service class rates. That is, standby rates are set in a manner to collect the same
9 full revenue requirement as the standard rate classes, but under the assumption
10 that all customers are served under standby rates. This is why Dr. Rosenberg's
11 suggestion to increase the current delivery-only portions of the contract demand
12 charges by the same percentage as the OASC demand (delivery-only) charge is
13 not a valid proposal.

14 Q. Do you agree with Dr. Rosenberg's recommendation that the Commission direct
15 that a collaborative process be established with Staff and interested parties to
16 review and advance possible modifications to RG&E's current standby rate
17 design?

18 A. No. RG&E participated in a collaborative process to establish the current process
19 to design standby rates. The parties agreed and the Commission approved the
20 establishment of standby rates using RG&E's MCOS study as a basis for
21 determining the relationship between customer, contract demand and daily as
22 used demand. The resulting standby rates are cost based and maintain the standby

**REBUTTAL TESTIMONY OF THE
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1 rate principles established by the Commission. A new collaborative is not
2 necessary.

**IMPACT OF TRANSFERRING TRANSMISSION REVENUES
FROM THE NBC TO DELIVERY AND
WHEELING EXPENSES FROM DELIVERY TO THE NBC**

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6 Q. Can you briefly discuss, from a rate perspective, the impact of the Staff-proposed
7 transmission revenue and wheeling expense transfers that NYSEG's Revenue
8 Requirements Panel has accepted in its rebuttal testimony?

9 A. As described in more detail in the rebuttal testimony of the Companies' Revenue
10 Requirements Panel, the impact of both of the transfers is to reduce the delivery
11 revenue requirement. Staff proposes to impute an additional \$35 million of
12 wholesale transmission revenues into the delivery revenue requirement, thereby
13 reducing it. Staff also proposed to transfer wheeling expense out of the delivery
14 revenue requirement, thereby further reducing it. However, from an overall bill
15 perspective, assuming that wholesale transmission revenues and wheeling
16 expenses are as forecast, the NBC will increase by the same amount as the
17 delivery revenue requirement decrease, resulting in no impact on customers'
18 overall bills.

19 Q. Does this conclude the Panel's rebuttal testimony at this time?

20 A. Yes, it does.

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