BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Niagara Mohawk Power Corporation

Case 17-E-0238

August 2017

Prepared Testimony of:

Staff Electric Rates Panel

Mary Ann Sorrentino
Utility Supervisor

Sandra Hart
Assistant Engineer (Electrical)

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Assistant Engineer (Electrical)

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Department of Public Service
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Albany, New York 12223-1350.

Q. Please state your names, titles, employer, and business address.

A. Mary Ann Sorrentino, Sandra Hart, and Nicholas Hanson. We are employed by the New York State Department of Public Service (Department). Our business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. Ms. Sorrentino, have you already discussed your credentials in another testimony submitted in these proceedings?

A. Yes, I provided that information in the direct testimony of the Staff Policy Panel. Ms. Sorrentino

Q. Ms. Hart, what is your position at the Department?

A. I am employed as an Assistant Engineer (Electrical) in the Electric Rates and Tariffs Section of the Office of Electric, Gas and Water, which we will refer to as OEGW.

Q. Ms. Hart, please state your educational background and professional experience.

A. I received a Bachelor of Science degree in Mechanical Engineering from Clarkson University in December 1999. I began my employment with

the Department as a Junior Engineer in August 2008 in the Office of Energy Efficiency and the Environment. In the fall of 2011, I was promoted to a Utility Engineer 1. In February 2014, I joined the Electric Rates and Tariffs Section of OEGW. Since joining OEGW, my title has changed to Assistant Engineer (Electrical) and I have prepared, analyzed, and reviewed reports and studies involving operating revenues, sales forecasts, operation and maintenance expenses, embedded costs, revenue allocation, and rate design. My current duties include engineering analyses of utility rate, pricing, and tariff proposals.

Q. Ms. Hart, have you previously testified before the Commission?

A. Yes, I testified in: Case 10-E-0362, Orange and Rockland Utilities, Inc., regarding the development of a targeted demand side management model; Case 14-E-0493 regarding Embedded Cost of Service, or ECOS, studies, rate design, and other revenue requirement issues; and, Cases 15-E-0283, et al. New York State Electric and Gas Corporation and Rochester Gas & Electric

Corporation – Electric Rates, on various ECOS and rate design issues.

Q. Mr. Hanson, have you previously discussed your position, education background and profession experience?

A. Yes, that information is included in the testimony of the Staff Lighting Panel.

Q. What is the scope of the Panel’s testimony in this proceeding?

A. Our testimony will address the following areas of Niagara Mohawk Power Corporation’s (Niagara Mohawk or the Company) pre-filed testimony: (1) price out of Staff’s sales forecast; (2) the 2017 ECOS study and results used to support revenue allocation, rate design, and unbundled rates for competitive services; (3) Merchant Function Charge (MFC) adjustment; (4) Transmission Revenue Adjustment (TRA); (5) Revenue Decoupling Mechanism (RDM); and (6) electric tariff modifications.

Q. In your testimony, will you refer to, or otherwise rely upon, any information produced during the discovery phase of this proceeding?

A. Yes, we will refer to, and have relied upon,

several responses to Department Staff Information Requests.

Q. Are you sponsoring any exhibits?

A. Yes. We are sponsoring six exhibits.

Q. Would you briefly describe each exhibit?

A. Exhibit___(SERP-1) contains a list of Information Requests and their associated responses that were relied upon in the Panel's testimony.

Exhibit___(SERP-2) contains our proposed electric forecast Rate Year revenues at the current rate levels.

Exhibit___(SERP-3) contains our proposed revenue allocation for the Rate Year, the twelve months ending March 31, 2019.

Exhibit___(SERP-4) contains a summary of our proposed Rate Year increases.

Exhibit___(SERP-5) contains detailed bill impacts for the Rate Year.

Exhibit___(SERP-6) contains our proposed modifications to Niagara Mohawk's PSC 220 - Electricity tariffs.

Revenue Priceout

Q. Has the Panel reviewed Niagara Mohawk's forecast

of Rate Year revenues at current rates?

A. Yes. Based on Niagara Mohawk's Rate Year sales forecast of 33,329 Gigawatt hours (GWhs), Niagara Mohawk forecasts collecting $1.62 billion in transmission and distribution (T&D) delivery revenues during the Rate Year at current rates.

Q. What is the total electric revenue forecast for the Rate Year ending March 31, 2019?

A. Niagara Mohawk forecasts collecting $2.53 billion in total revenues, which include delivery revenue, commodity revenue, and gross revenue taxes.

Q. Please briefly describe Niagara Mohawk's revenue priceout model.

A. Niagara Mohawk used monthly energy, demand, and customer forecasts for the Rate Year priced at current effective rates to develop the Rate Year T&D delivery service revenue forecast. Forecasts of customers and energy, for the Rate Year, were developed for three customer groups: residential, commercial, and industrial. The Company Forecasting Panel used a model that allocates the group forecasts into service class

forecasts. The model used by the Company Forecasting Panel was developed using historical customer and energy ratios. The service class forecasts were provided to the Company Electric Rate Design Panel. The Company's Electric Rate Design Panel took the energy and customer forecasts and broke out SC-1-Residential and SC-1C-Residential TOU classes using a ratio that was also developed from historical information. For demand billed classes, Niagara Mohawk used historical data to determine billing demands based on energy consumed.

Q. Please describe your analysis of the model used by Niagara Mohawk to price out its sales forecast.

A. To determine the accuracy of Niagara Mohawk's pricing model, Staff walked through the model with the Company. Staff also reviewed supporting files that were supplied by the Company in response to DPS-243.

Q. Is Niagara Mohawk's approach to estimating revenues from its forecasting model acceptable?

A. Yes, Niagara Mohawk's revenue price out model is acceptable.

Q. How did the Panel determine the Company's revenue price out model is acceptable?

A. We used the same historical customer and energy ratios as the Company Electric Forecasting Panel to develop service class forecasts. We compared our results to the Company Electric Forecasting Panel service class forecasts and found the results to be reasonable.

Q. Did the Staff Electric Forecasting Panel provide this Panel with customer and energy forecasts by customer group: residential, commercial, and industrial?

A. Yes. To allocate the three large group forecasts into service class forecasts, we used the same historic ratios as the Company Electric Forecasting Panel.

Q. Does the Staff Electric Forecasting Panel propose a Rate Year sales forecast that differs from Niagara Mohawk's sales forecast?

A. Yes. The Staff Electric Forecasting Panel proposes a sales forecast that is about 103 GWhs lower than the sales reflected in Niagara Mohawk's initial forecast.

Q. Has the panel made any adjustments to the

Company's forecast sales for Borderline and Saint Lawrence service classes?

A. No. We have used the same sales for the Borderline and Saint Lawrence customers. When we applied the historic ratios to the Staff sales forecast the forecast of GWHs for Saint Lawrence increased substantially. Therefore, we accepted the Company's sales for Saint Lawrence as well as Borderline service classes. In total, our forecast is approximately 120 GWhs lower than the Company's.

Q. Has the Panel developed an adjustment to the Rate Year revenues at current rates based on Staff's sales forecast?

A. Yes. Based on the Staff Electric Forecasting Panel forecast and our revenue priceout model, we determined that Niagara Mohawk's combined transmission and distribution Rate Year revenues will be $1.3 billion, a decrease of $5.9 million from Niagara Mohawk's updated forecast. We have provided the priceout of the decrease in sales to Staff Accounting Panel.

Q. How did Staff price out the revenues for each of the service classes?

A. We used the same rates for the Commodity, Legacy Transition Charge, and New Hedge Adjustment Charge, as Niagara Mohawk. We then multiplied those rates by our energy forecasts. However, we used the Company's System Benefits Charge and energy efficiency program revenues to develop our System Benefits Charge and energy efficiency program rates.

Q. Is the panel proposing to modify the Merchant Function Charge (MFC) revenues based on Staff's revised Full Service sales forecast?

A. No, we are accepting the Company's MFC revenues at the proposed rates, however, we acknowledge that a difference in revenues and rates exists based on the Company and Staff sales forecast. We do however recommend two modifications to the MFC, which we will discuss later.

Q. Did the Panel prepare any exhibits comparing the forecast sales and associated revenues proposed by the Panel and Niagara Mohawk, respectively?

A. Exhibit___(SERP-2) compares forecast sales and associated revenues estimated by Niagara Mohawk and Staff.

Q. Does the Panel recommend any other adjustments

to the Company's revenue forecast?

A. Yes. We recommend an increase in CSS (which is the Company's customer service system) reconnection charge revenues for the Rate Year.

Q. What are CSS reconnection charge revenues attributable to?

A. CSS reconnection charge revenues are attributable to disconnection and reconnections performed by the Company, for which customers are assessed a fee.

Q. What are the fees for Company performed disconnections and reconnections?

A. Currently the fees are: $46.00 for disconnection and reconnections at the meter during regular hours; $65.00 at the meter after hours; $146.00 at the pole during regular hours; and, $322.00 at the pole after hours. The Company proposed rates are as follows: $50.00 at the meter during regular hours; $64.00 at the meter after hours; $209.00 at the pole during regular hours; and, $372.00 at the pole after hours.

Q. How did the Company develop its Rate Year forecast of CSS reconnection charge revenues?

A. As can be seen in Exhibit___(E-RDP-2CU),

Schedule 4, the Company used CSS reconnection charge revenues from the historic test year as a forecast of Rate Year CSS reconnection charge revenues.

Q. How does this Panel recommend CSS reconnection charge revenues be forecast for the Rate Year?

A. We recommend using the historical three-year average of disconnection and reconnections, by type, performed by Niagara Mohawk as a forecast for the number of disconnection and reconnections to be performed in the Rate Year. Additionally, we recommend the forecast be developed by multiplying the historical three-year average by the proposed rates, as opposed to using historic test year revenues.

Q. Why does the Panel recommend using a three-year average as opposed to the historical test year?

A. The Panel recommends using a three-year average to address annual variability in the number of disconnections and reconnections.

Q. How did the Panel calculate its CSS reconnection charge Rate Year forecast?

A. We multiplied the three-year average of disconnection and reconnections, by type, by the

Company's proposed rates to arrive at our $3.7 million forecast of CSS reconnection charge revenues. We obtained the historical data from the Company's response to DPS-597, which is included in Exhibit___(SERP-1). Our recommended adjustment, based on this calculation, results in an increase of $1.6 million in CSS reconnection charge revenues. The calculations used to develop our recommended CSS reconnection charge revenues are contained in Exhibit___(SERP-2).

Q. What is the Panel's final Electric Revenue Forecast for the rate year ending March 31, 2019?

A. Our final Electric Revenue Forecast for the rate year ending March 31, 2019 is $2.54 billion, an increase of $13.9 million from the Company's proposed revenue forecast.

Embedded Cost of Service Study (ECOS)

Q. Please briefly describe the purpose of an ECOS study.

A. The purpose of an ECOS study is to provide a comparative analysis for the cost of providing utility services to each customer class and the

rate of return for each class. It is based on an analysis of the rate base, operating expenses, and revenues for the historic calendar year. An ECOS study has three major steps: functionalization, classification, and allocation.

Q. Please explain the three major steps.

A. Functionalization is the process of assigning the Company rate base and expense items to specific utility operating functions, generally: transmission, distribution, and consumer. Classification is used to further define the functionalized rate base and expense items into demand, energy, and customer components. The final step – allocation - assigns the components to customer classes consistent with the cost that the class imposes on the utility.

Q. What information does an ECOS study provide?

A. An ECOS study provides a system-wide rate of return, as well as class specific rates of return.

Q. What is a “tolerance band”, and why is it used?

A. A tolerance band is used to account for the imprecise nature of an ECOS study. Classes are

considered deficient or in surplus if the class specific rate of return falls outside the band.

Q. Did Niagara Mohawk submit an ECOS study in this case?

A. Yes, Niagara Mohawk submitted a “pro-forma” ECOS study.

Q. What is a “pro-forma” ECOS study?

A. A pro-forma ECOS study uses forecasted data to determine what each class’s return will be in the future, usually for a rate year. In a pro-forma ECOS study inputs - such as: revenues, system loads, expenses, and rate base - are forecasted for the upcoming rate year.

Q. Please describe the pro-forma study that Niagara Mohawk presented in its rate filing.

A. Niagara Mohawk presented a pro-forma study for the Rate Year, which is April 1, 2018 to March 31, 2019. The study shows the projected rates of return, at current rates, for the rate classes served by the Company as well as each class’s relative rate of return. A class’s relative rate of return is the class’s rate of return divided by the system rate of return. It also shows the change in base transmission and

distribution revenue required for each class to produce the 6.93 percent rate of return requested by Niagara Mohawk in this proceeding.

Q. Does the Panel take issue with any aspect of Niagara Mohawk's ECOS study?

A. Yes. The Panel recommends against the use of a pro-forma ECOS study because it relies on Rate Year forecasts to estimate model inputs. Inaccuracies in these forecasts can have a significant impact on study results. Further, using a forecast pro-forma study requires that the ECOS study be updated and the model re-run in the event adjustments are made, which can be a time-consuming process.

Q. Does the Panel recommend using a different type of ECOS study to set rates?

A. Yes. Staff recommends using a historic ECOS as the basis for allocating revenue responsibility amongst the classes, and recommends that Niagara Mohawk be required to submit such a study in its next rate case.

Q. Why does the Panel recommend Niagara Mohawk transition to a historic ECOS study in its next rate filing?

A. We prefer using the historic-based ECOS study since the rate base, operating expenses, and revenues are known values.

Q. Does the Panel propose any modifications to the Company's pro-forma ECOS study?

A. We agree with the functionalizations, classifications, and allocations used by Niagara Mohawk, with two exceptions. The exceptions pertain to the classification of Account 368 - Line Transformers and the method the Company used to determine what portion of Wires Accounts, which are Accounts 364, 365, 366 and 367, should be allocated based on the number of customers versus demand.

Q. Would you propose the same recommendations to the classification of Accounts 364, 365, 366, 367, and 368 if a historic ECOS study was used to develop the rate of return for each class, as opposed to the pro-forma ECOS.

A. Yes.

Q. How did Niagara Mohawk classify Account 368 - Line Transformers?

A. First, Niagara Mohawk directly assigned the costs of transformers to the service

classifications using those transformers. For example, Niagara Mohawk has 23 underground, single-phase 250 kVa transformers on its system which are used to serve 32 SC-1 customers and 3 SC-2ND customers. Therefore, the Company assigned the costs of the single-phase 250 kVa transformers to SC-1 and SC-2ND only. The costs were then allocated between the two service classes based on each class' Non-Coincident Peak (NCP) demand.

Q. How does the Panel recommend classifying the account?

A. We recommend that Account 368 - Line Transformers be classified using a minimum system approach. The minimum system method assumes that a minimum size distribution system is built to meet minimum load requirements. The costs associated with the minimum system are then allocated to the relevant classes based on the number of customers.

Q. How did the Panel perform its minimum system classification?

A. Like the Company, we assigned the costs of line transformers to the customer classes that use

those transformers. We then allocated costs to the service classes based on customers and NCP demand.

Q. Provide an example of the methodology proposed by the Panel using the same single-phase 250 kVa transformers referenced above.

A. We assigned the costs of the single-phase 250 kVa transformers to SC-1 and SC-2ND only. The costs were then allocated between the two service classes based on number of customers and demand. Specifically, we multiplied the cost of the least expensive underground transformer on Niagara Mohawk’s system by 23, the number of single-phase 250 kVa transformers, and allocated that part of the transformer cost based on the number of customers in each class. The remainder of costs associated with single-phase 250 kVa transformers were allocated in proportion to each class’ NCP demand.

Q. Why does the Panel propose to classify Account 368 - Line Transformers using a customer and demand component?

A. The number of line transformers on the utility’s system is a function of both the number of

customers as well as demand. The National Association of Regulatory Utility Commissioners (NARUC) Electric Utility Cost Allocation Manual (Electric NARUC Manual) states that the total dollars in Account 368 – Line Transformers should be assigned to customer and demand components. The Electric NARUC Manual explains on page 90 that: "The customer component of distribution facilities is that portion of costs which varies with the number of customers. Thus, the number of poles, conductors, transformers, services, and meters are directly related to the number of customers on the utility's system."

Q. Does the Panel have any other concern regarding the Company's ECOS study?

A. Yes, we have a concern with respect to the classification of Wires Accounts, which are accounts 364, 365, 366 and 367, as proposed by the Company. While we agree that Wires Accounts should be classified as both customer and demand related, we disagree with the method the Company used to determine what portion of Wires Accounts should be allocated based on the number of

customers, and what portion should be allocated based on demand. The Company recommends use of a zero-load study, whereby the labor component of Wires Accounts capital cost is used to determine the portion to be allocated based on the number of customers.

Q. Why did the Company use labor costs to determine the portion of Wires Accounts to be allocated based on customers?

A. The Company indicated that “the labor-only portion of these costs has zero load carrying capacity; is largely independent of the capacity installed; varies with the length of the distribution system installed; and is incurred primarily to connect customers to the system…”

Q. What does the Panel recommend with respect to the classification of Wires Accounts?

A. The Panel recommends that the Wires Accounts be classified as both customer and demand related, and that the customer component be determined based on a minimum system study as opposed to the Company’s zero-load study.

Q. Could the Company have executed this recommendation?

A. No. To do so, Niagara Mohawk would need the installed cost of conductors on the Company's system by gauge. The Company was unable to provide such information.

Q. How does the Panel recommend addressing the classification of Wires Accounts?

A. We recommend the Company track installation costs, using labor and materials and other components, and present its findings with its next ECOS study.

Revenue Allocation

Q. Please describe how Niagara Mohawk allocates the proposed revenue increase to its service classes.

A. There are several steps to the revenue allocation process. First, the Company calculated each service class' rate of return based on forecasted revenues, expenses and rate base.

Q. Please explain the tolerance band that Niagara Mohawk applied to the results of its ECOS study.

A. Niagara Mohawk applied a tolerance band of +/- 30 percent around the system-wide rate of return, prior to rate relief, to determine if a

class was deficient or in surplus. Classes would be considered deficient if their computed return falls below 70 percent, or in surplus if their computed return exceeds 130 percent, of the system-wide rate of return.

Q. Did Niagara Mohawk propose that all service classes with a rate of return within the tolerance band receive a system-average increase?

A. For the most part the Company proposed that service classes with a rate of return within the tolerance band received the system-average revenue increase of 6.93 percent. The SC-1-Residential, SC2D-Small General Demand, SC2ND-Small General Non-Demand, SC3-S-Large General Secondary, and SC-3A-S/P-Large General TOU-Secondary/Primary were all within the band.

Q. Did Niagara Mohawk propose any exceptions for service classes that had an indexed rate of return within the tolerance band?

A. Yes, as indicated by the Company on page 20 of the Electric Rate Design Panel direct testimony, the Company proposed an exception for SC-2 Non-Demand “to mitigate what otherwise would have

been a disproportionate resulting rate of return compared to the proposed system target return of 6.93 percent." Additionally, the Company Exhibit___(E-RDP-4CU) shows the SC-3-Large General Secondary service class to be within the band, but the Company proposed an above-average increase.

Q. How does Niagara Mohawk propose to address the services classes that are in surplus by more than 30 percent of the system-wide rate of return?

A. The Company's Electric Rate Design Panel explains that on page 30 of its direct testimony, "for classes above the tolerance band, the goal was to bring them to a return somewhat above the target return." The Company Exhibit___(E-RDP-4CU) shows SC-1-Residential TOU, SC-3-P-Large General Service Primary, SC-3-T-Large General Service Transmission, SC-3A-U-Large General Service TOU Subtransmission, SC-3A-T-Large General Service TOU Transmission, and SC-L-Lighting service classes as over-contributing.

Q. How did the Company calculate the increases to

these classes?

A. First, Niagara Mohawk calculated a new tolerance band of 0.98 to 1.05 around its indexed system return at proposed rates. The Company then performed two calculations. The Company calculated:

A) the incremental revenues needed to bring each class to the system average rate of return at current rates; and, B) the incremental revenues needed to bring each class to the top of the new band at proposed rates. Each class above the initial 30 percent tolerance band was assigned the greater of either calculation A or B.

Q. What is the next step in Niagara Mohawk's revenue allocation process?

A. Since all classes were either in the band or above the band there was a revenue deficiency after the first two steps. The Company allocated the revenue deficiency to all classes based on each class' delivery margin (i.e., revenues minus expenses).

Q. What was the final step in Niagara Mohawk's revenue allocation process?

A. The Company allocated all of the deficiency

attributed to SC-2 Non-Demand receiving a below average increase to the SC-3-Large General Secondary service class.

Q. Does the Panel agree with the Company's revenue allocation methodology?

A. No.

Q. Why doesn't the Panel agree with the Company's revenue allocation methodology?

A. We disagree with the Company's proposed methodology for multiple reasons. First, as previously discussed, we disagree with the use of a pro-forma study as the basis for revenue allocation. Second, we disagree with the use of the new tolerance band of 0.98 to 1.05 around the system return at proposed rates. As we indicated earlier, a tolerance band is used to account for the imprecise nature of an ECOS study. Niagara Mohawk's proposal to establish a band of 0.98 to 1.05 around the system return at proposed rates is overly aggressive especially on a pro-forma study, and is contrary to the intent of a tolerance band. Third, we disagree with the Company's proposal to give the SC-2 Non-Demand class receiving a below average

increase and to allocate the deficiency to the SC-3-Large General Secondary service class, even though both classes are within the +/- 30 percent tolerance band. The Company's proposal resulted in a rate of return for the SC-2 Non-Demand class that was equal to the Company's proposed system return at proposed rates seemingly ignoring the application of any tolerance band, as can be seen in Exhibit___(E-RDP-4CU), Schedule 1. Additionally, classes that were above the tolerance band have moved closer to the system rate of return than classes that were within the original tolerance band creating a greater revenue shortfall to be reallocated.

Q. Explain how the Panel developed its proposed revenue allocation.

A. First, we took from the Staff Accounting Panel the revenue requirement increase of $169 million, then subtracted the revenues associated with the Company's energy efficiency programs, which Staff transferred from the SBC, as well as the incremental MFC revenues. This resulted in the T&D revenue requirement increase which we

allocated to the classes based on T&D revenues. This resulted in a total across the board increase of 8.28 percent. Second, per the recommendation of the Staff Markets and Energy Efficiency Panel, we allocated the energy efficiency program costs to the individual service classes based on our forecasted kilowatt hours. Third, we accepted the Company's allocation of MFC revenues.

Q. Did the Panel provide an exhibit detailing your proposed revenue allocation?

A. Yes, the Panel's revenue allocation is provided in Exhibit___(SERP-3).

Rate Design

Q. What general principles did Niagara Mohawk apply when designing rates?

A. Niagara Mohawk used its ECOS study as a guide to set customer charges, but only proposed to increase the customer charges for SC-3A-U-Large General TOU Subtransmission and SC-3A-T-Large General TOU Transmission. The Company proposed that the remainder of the T&D delivery service revenues be allocated between the kilowatt hour and kilowatt charges.

Q. Does the Panel agree with Niagara Mohawk's proposal to increase customer charges for SC-3A-U-Large General TOU Subtransmission and SC-3A-T-Large General TOU Transmission?

A. Yes. The Panel agrees with the Company's proposal to increase the customer charge for SC-3A-T-Large General TOU Transmission from $3,500/month to $6,000/month. The Panel also agrees with the Company's proposal to increase customer charge for SC-3A-U-Large General TOU. However, the Panel disagrees with the amount of the Company's proposal. The Panel recommends increasing the SC-3A-U-Large General TOU customer charge to $2,950/month.

Q. Why does the Panel recommend increasing to the SC-3A-U-Large General TOU customer charge to $2,950/month instead of $3,700 as proposed by the Company?

A. Since the Staff recommended increase in revenue requirement is significantly smaller than the Company's proposed increase in revenue requirement, if the customer charge for SC-3A-U-Large General TOU was raised from $1,400/month to $3,700/month as proposed by the Company, we

would need to reduce the KW charge for this class and therefore would give this class a rate decrease.

Q. What does the Company propose with respect to reactive power charge?

A. The Company proposes to maintain reactive power charges at their current rates.

Q. Do you agree with the Company proposal to keep reactive power charges at current rates?

A. Yes.

Q. What does Niagara Mohawk propose for the remaining T&D charges?

A. For Residential (SC-1 and SC-1C) and SC-2ND Small General Non-Demand service classes the Company proposes using kilowatt hour charges to recover the remaining service class specific revenue requirement. For SC-2D – Small General Demand and the Large General Service classes (SC-3 and SC-3A), the Company proposes using kilowatt charges to recover the remaining service class specific revenue requirement.

Q. Does the Panel generally agree with this proposal?

A. Yes.

Q. Has the Panel prepared an exhibit that compares present and proposed rates based on the Staff proposed $169 million revenue requirement increase for Niagara Mohawk?

A. Yes. Staff's proposed revenue requirement increase is shown in Exhibit___(SERP-4). Detailed bill impacts that Staff's proposed rates would have on full service customers' bills at various levels of consumption are shown in Exhibit___(SERP-5).

Merchant Function Charge (MFC)

Q. Does Niagara Mohawk currently have a Merchant Function Charge?

A. Yes. The MFC consists of four components: (1) commodity-related credits and collections; (2) commodity-related uncollectibles; (3) costs associated with electric supply procurement; and, (4) a return requirement for working capital.

Q. Is the Panel proposing any adjustments to Niagara Mohawk's proposed MFC?

A. Yes. The Panel is proposing adjustments to the commodity-related uncollectibles and working capital.

Q. What are the Panel's recommendations with respect to the commodity-related uncollectibles portion of the MFC?

A. Similar to the Staff Accounting Panel, we recommend that uncollectible rates be developed using an average of the most recent three years.

Q. What are the Panel's recommendations with respect to the commodity-related working capital portion of the MFC?

A. Like the recommendation of the Staff Gas Rate Panel testimony, we recommend using the Commission's "Other Customer Capital Rate," as opposed to the pre-tax weighted cost of capital rate, to determine the working capital percentage.

Transmission Revenue Adjustment (TRA) Mechanism

Q. Please explain Niagara Mohawk's current Transmission Revenue Adjustment.

A. Niagara Mohawk's current TRA is based on a monthly comparison of (1) a forecast wholesale transmission revenue credit that is reflected in base T&D delivery rates, and (2) the actual wholesale transmission revenue realized, exclusive of imposed revenue taxes. The annual

forecast-based wholesale transmission revenue credit reflected in current delivery rates is $91,357,015.

Q. Is the TRA reconciled?

A. Yes. The TRA is calculated on a cost month basis and applied on a two-month lag. On a monthly basis, the base wholesale transmission revenue credit is compared to the actual wholesale transmission revenues. Any actual transmission revenues that exceed the base transmission revenue credit is refunded to customers. Conversely, wholesale transmission revenues that fall short of the base wholesale transmission revenue credit will be recovered from customers.

Q. How is the TRA imbalance credited or surcharged to customers?

A. If the monthly TRA credit or debit exceeds $6 million in any given month, the amount over $6 million will be deferred to the next cost month. A return at Niagara Mohawk’s cost of capital is applied to this deferred balance. If the $6 million cap is reached for an additional two consecutive months, the cap will be increased to

$8 million. The $8 million cap shall remain in place as long as the deferred TRA credit or debit exceeds $6 million, including recovery of the deferral and corresponding return. The monthly cap will revert to $6 million when the deferred TRA debit or credit, including the recovery of the deferral and return, falls below or equals $6 million.

Q. Has Niagara Mohawk proposed to modify the TRA?

A. Yes. Niagara Mohawk proposes to: (1) increase the wholesale transmission revenue target to $185,695,556; (2) include the New York Power Authority (NYPA) load, which includes the Recharge New York Program; and, (3) add an annual true-up for refund or recovery subject to applicable caps.

Q. Does the Panel agree with these proposals?

A. Yes, the Panel finds Niagara Mohawk's proposal reasonable since NYPA customers now pay full standard tariff rates and the Company's proposal to add an annual true-up mechanism is consistent with its other surcharge and surcredit mechanisms.

Revenue Decoupling Mechanism

Q. Please explain what a Revenue Decoupling Mechanism (RDM) is and how they have been used in New York State.

A. On April 20, 2007 the Commission issued an Order Requiring Proposals for Revenue Decoupling Mechanisms in Case 03-E-0640. In that case, utilities were required to file for consideration in individual rate cases RDM proposals that address potential disincentives to utilities to engage in energy efficiency programs.

Q. Did Niagara Mohawk implement an RDM?

A. Yes. Niagara Mohawk implemented an RDM in its 2010 electric rate proceeding.

Q. Please explain Niagara Mohawk's current RDM.

A. Niagara Mohawk's RDM currently includes monthly revenue targets for five different reconciliation groups. The groups are: SC 1 and SC 1C; SC 2ND; SC 2D; SC3; and SC3A. For each group, a monthly delivery revenue target is developed. Actual revenues are compared to the monthly target for each reconciliation group. Unless the monthly

imbalance exceeds 1.5 percent and activates the RDM imbalance trigger, the monthly RDM imbalances are totaled for each reconciliation group and any imbalances, with interest, are surcharged or credited over a twelve-month period.

Q. Explain the imbalance trigger.

A. If the total of the cumulative monthly reconciliation balance for any of the reconciliation groups is greater than 1.5 percent of the Company's annual target revenue for that reconciliation group, the Company will file an interim RDM adjustment (for the reconciliation group) for the remainder of the calendar year.

Q. How is the RDM imbalance credited or surcharged to customers?

A. For service classes that are non-demand metered, the RDM reconciliation is computed and billed based on a kilowatt-hour forecast. For service classes that are demand metered, the RDM reconciliation is computed based on kilowatt sales.

Q. Are certain service classes excluded from the

RDM?

A. Yes. SC-12 customers with contracts that do not provide exclusively for an alternative billing methodology for a NYPA allocation are not subject to an RDM. For a customer that receives NYPA power, the NYPA portion of that customer's load is excluded from the RDM. All street lighting is excluded from the RDM. Empire Zone Rider (EZR) and Excelsior Jobs Program (EJP) customers are not subject to the RDM for the EZR/EJP portion of their loads.

Q. Has Niagara Mohawk proposed to modify its RDM in this case?

A. Yes. The Company proposes two modifications. First, Niagara Mohawk proposes to add a reconciliation group that would apply to all facility and delivery revenue from all lighting tariff service classes. Second, Niagara Mohawk proposes to include NYPA load in the RDM by including NYPA revenue in the applicable parent service class targets and reconciliations.

Q. Does the Panel agree with the Company's proposal to include NYPA load in the RDM.

A. Yes, we find the Company's proposal to include

NYPA load in the RDM by including NYPA revenue in the applicable parent service class' target and reconciliation acceptable since NYPA customers currently pay standard tariff rates.

Q. Does the Panel agree with the Company's proposal to modify the RDM to add a reconciliation group for Lighting Tariff service classes?

A. Yes, the Panel agrees with the Company's proposal to modify the RDM to add a reconciliation group to apply to all facility and delivery revenue of all Lighting Tariff service classes. The Commission permitted Niagara Mohawk to establish a reconciliation group for outdoor lighting customers if the Commission approved an energy efficiency program for outdoor lighting service.

Tariff Modifications

Q. Did the Panel review the tariff modifications proposed by Niagara Mohawk in its PSC 220 Electricity Tariff?

A. Yes. We have reviewed the proposed modifications to Niagara Mohawk's electric tariffs and recommend numerous revisions to the tariffs that are described in detail in

Exhibit___(SERP-6). We recommend that the Commission direct Niagara Mohawk to incorporate these revisions into its electric tariff schedule.

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

A. Yes.