STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on September 21, 2005

COMMISSIONERS PRESENT:

William M. Flynn, Chairman
Thomas J. Dunleavy
Leonard A. Weiss
Neal N. Galvin
Patricia L. Acampora

CASE 03-E-0641 - Proceeding on Motion of the Commission Regarding Expedited Implementation of Mandatory Hourly Pricing for Commodity Service.

ORDER INSTITUTING FURTHER PROCEEDINGS AND REQUIRING THE FILING OF DRAFT TARIFFS

(Issued and Effective September 23, 2005)

BY THE COMMISSION:

BACKGROUND

As discussed in the Order on Expansion of Voluntary Real-Time Pricing Programs (RTP Program Order) issued October 30, 2003 in this proceeding, Real-Time Pricing (RTP) programs can provide significant value to utilities and their customers by enabling customers to realize the benefits of reducing peak period demand and shifting load to off-peak, less expensive time periods. Since RTP sends clear price signals to customers, it influences their use of electricity. Customers can compare the hourly prices available through RTP against their hourly load profiles, affording them the opportunity to reduce their electric bills by adjusting their load profiles in response to the price signals.

Notwithstanding the benefits of RTP pricing, it was decided in the RTP Program Order that mandatory participation in RTP programs would not be required. Instead, effective educational programs would be developed to address the relatively low participation in voluntary RTP programs by acquainting customers with the benefits of RTP. Participation in voluntary RTP programs was expected to grow satisfactorily as a result.

The utilities were therefore directed to embark upon enhanced marketing and promotion activities to bring the benefits of RTP to the attention of their customers. The utilities were required to develop and implement extensive and more focused customer outreach and education programs to promote awareness of and participation in RTP.[1] The utilities were also directed to provide specialized training to the account representatives for their large customers, to equip them with the tools for more effectively educating those customers about RTP. These enhanced educational efforts were to focus on individual customers, addressing their specific circumstances so that they could calculate benefits that could accumulate over time if proper responses to hourly price signals were made. Finally, utilities were directed to establish goals for the level of customer participation expected in the enhanced RTP programs.

Thereafter, the participating utilities made compliance filings setting forth their marketing and promotion programs. These plans were evaluated in the Order Approving Marketing Plan Compliance Filings In Part and Directing Further

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[1] Initially, the following utilities were directed to pursue RTP: Central Hudson Gas & Electric Corporation (Central Hudson), New York State Electric & Gas Corporation (NYSEG), Rochester Gas & Electric Corporation (RG&E), Consolidated Edison Company of New York, Inc. (Con Edison), and Orange & Rockland Utilities, Inc. (O&R). Niagara Mohawk Power Corporation (Niagara Mohawk) was excluded because it had previously required its largest commercial and industrial customers to take commodity service at hourly prices.

Filings (Marketing Compliance Order) issued August 1, 2005 in this proceeding.

In that Order, it was noted that, in contrast to RTP, average energy pricing reduces customers' awareness of the relationship between their usage and the actual cost of electricity, and obscures opportunities to save on electric bills that would become apparent if RTP were used to reveal varying price signals. In their marketing plans, utilities suggested means for bringing these benefits to the attention of customers. Individual customer contact, however, is crucial to the success of marketing RTP. Customers can be educated on the reduction in their total energy costs available under RTP, if their usage patterns can be compared to RTP prices through usage simulation models and other means. The utilities also described in their marketing plans proposed efforts for promoting RTP and for making available to customers the information, specific to their circumstances, needed to respond efficiently to RTP.

Moreover, if a sufficient number of customers reduced load in response to RTP, besides benefiting themselves, the reductions in peak period usage would ameliorate extremes in electricity costs for all other customers. Success of the marketing plans therefore would realize the societal goal of lower electricity costs for all customers.

The utilities, however, were reluctant to identify a specific level of participation in their RTP programs, claiming that setting such goals was premature, given the early stage of their efforts in marketing RTP. The Marketing Compliance Order rejected the utilities' positions, finding that "goal setting is an important and useful method for measuring effectiveness of the outreach and education efforts on real-time pricing and determining how to design and further refine effective RTP programs."[2] As a result, utilities were directed to develop goals for participation and file them by October 7, 2005.

DISCUSSION AND CONCLUSION

Beginning last year and continuing through this year, rising fuel prices have driven energy prices substantially higher in New York State. In particular, electricity prices have risen rapidly because natural gas is the fuel frequently used by the generation facilities that operate to meet peak period demand. Recent increases in the price of natural gas have been exacerbated by the disastrous effects of Hurricane Katrina on natural gas production and transmission in and from the Gulf of Mexico gas producing region.

The higher gas prices translate into higher electricity prices in the day-ahead and real-time hourly wholesale markets operated by the New York Independent System Operator (NYISO). The increases in the price of the fuel for the generators that operate "on the margin" to meet peak demand drives up wholesale market electric prices, as the higher fuel costs are reflected in the NYISO’s location based marginal pricing (LBMP) method for setting the wholesale electric prices.

The increased peak period LBMP electric prices driven by higher gas costs forces upward the average price for electricity for all customers. Conversely, reducing peak demand will reduce the need for generation fueled with natural gas, alleviating overall price increases. Under RTP arrangements, however, large customers can benefit themselves by responding to RTP pricing signals and avoiding high-cost peak usage. If enough large peak usage customers avail themselves of that benefit, overall peak period usage will fall, natural gas

[2] Marketing Compliance Order, p. 9.

consumption will decline, and all customers will benefit from lower LBMP prices.

Moreover, because RTP conveys more accurate price signals to consumers, their demand management response can be more efficient. In response to those efficiencies, investments in generation supply options will also be made more efficiently. And, at times of peak load when market power can be a concern, RTP and the demand response it encourages can serve as a valuable addition to existing market power mitigation measures.

Realizing these benefits is contingent upon more widespread deployment of RTP pricing. The measured pace of implementation of RTP programs is no longer satisfactory. The recent rise in electricity prices associated with increasing peak period electric production costs threatens both the economy of New York, by making business more expensive to conduct, and the well-being of all electricity users, as they are compelled to divert a rapidly growing proportion of their income to electricity bills. Consequently, the RTP response to high peak-period prices will be accelerated.

Two utilities -- Niagara Mohawk and Central Hudson -- already require RTP for their largest customers. Niagara Mohawk has been charging RTP prices to its largest customers for several years and has been exploring the expansion of its RTP program to encompass additional classifications of service to significantly-sized customers, in particular Service Classification (S.C.) No. 3. The S.C. No. 3 customers already take commodity from the utility without the protection of hedges or other utility commodity cost amelioration measures. Because, without RTP, these customers are exposed to market price fluctuations without seeing the actual hourly prices that drive their electricity bills, they cannot implement strategies for responding to the hourly price signals forcing their bills upward. Enrolling these customers in RTP will make those price signals available to them.

There are, however, barriers to overcome in expanding RTP to Niagara Mohawk's S.C. 3 customers. Interval metering must be installed at all customers in the service classification so that they can match their hourly consumption against hourly prices. Moreover, many of these customers are smaller and less well-informed than the larger customers previously exposed to RTP. Additional outreach and education efforts of the type already underway at other utilities implementing voluntary RTP will be needed, as reconfigured and expanded in scope to the extent required to meet the needs of this particular group of customers.

As to Central Hudson, it recently implemented an hourly pricing provision (HPP) for setting the prices charged its larger customers that opt to take commodity service from the utility. Central Hudson successfully implemented its HPP program notwithstanding a few obstacles. The unhedged energy cost Central Hudson recovered from its largest customers was set at the average of the NYISO's LBMP hourly prices for a month in Zone G, where the utility is located. Prior to implementation of HPP, customers were charged the average of those prices, without seeing the actual pricing patterns that could affect their overall energy costs. Exposing such customers to RTP would begin with the same overall energy costs over a month for the service class as a whole, because the same hourly prices would be applied to usage, only without averaging them together over the monthly period. The difference upon implementation of RTP would be that customers could reduce their costs by responding to the actual hourly price signals.

At Central Hudson, however, the transition to HPP was complicated by the fact that some customers experienced bill increases because expiring hedges exposed them to the full effect of HPP pricing, and long-standing rate design incongruities had to be corrected before HPP prices could be charged. Even with those impacts, Central Hudson successfully implemented its program with a minimum of adverse customer effects and complaints. Central Hudson made extensive outreach and education efforts to bring the benefits of RTP to the attention of its customers, equip them with the tools to monitor their energy consumption and enable them to participate in price responsive demand reduction and energy efficiency programs, as well as to shop for alternative energy suppliers.[3]

Given the experiences of Niagara Mohawk and Central Hudson, realization of the benefits of RTP can be achieved on a more expedited schedule at other utilities. As a result, the other electric utilities are directed to file, within 60 days of the date of this Order, draft tariffs that would make RTP pricing mandatory for their largest customer classifications that provide for service at mandatory time-of-use rates.

To advance its efforts in extending RTP to its S.C. 3 customers, to conform its approach to the best practices of other utilities implementing RTP, and because its participation in this proceeding will allow other utilities to learn from its experience, Niagara Mohawk is directed to join in participating in this proceeding. It shall file, within the 60 day period prescribed above, draft tariffs placing S.C. 3 customers on RTP rates. Because it has already implemented tariffs for extending RTP to its mandatory time-of-use customer classifications, Central Hudson is excused from filing additional draft tariffs implementing mandatory RTP at this time.

The outreach and education efforts Central Hudson made are instructive. Accordingly, the utilities required to file draft tariffs for implementing RTP shall include with their

[3] Case 00-E-1273, Central Hudson Gas & Electric Corporation, Untitled Order (issued April 18, 2005).

filings plans for outreach and education efforts, beyond the efforts they are already making in implementing voluntary RTP. Moreover, utilities should in those filings incorporate plans for making available to customers interval metering and metering systems. The utilities also should report on the feasibility of equipping customers with tools for measuring the usage and acquiring the other data needed to monitor consumption in real time.

Central Hudson shall also make an outreach an education filing at the time draft tariffs are due. In its filing, the utility should set forth its plans for making any enhancements to its existing outreach efforts needed to conform to the requirements described above and, after considering any lessons it has learned from its outreach efforts, present any suggestions it has for improvements to those efforts.

Moreover, the recent Staff Report on competitive metering proposes that the utilities file, among other things, reviews of the strategy and timeline for the deployment and marketing of advanced metering services to each customer class and the removal of barriers obstructing customers' access to the data real-time meters yield.[4] It may be fruitful for utilities to consider the issues raised in the Staff Report in developing their enhanced outreach and education efforts here.

CONCLUSION

Utilities should be well positioned to expedite implementation of RTP and bring to their customers' attention the means for responding to RTP. Our interest in RTP was signaled over two years ago when this proceeding was instituted, and utilities have made substantial progress in preparing for the gradual introduction of RTP through voluntary steps. A more

[4] Case 02-M-0514, Competitive Metering Proceeding, Staff Report (September 7, 2005).

rapid pace is now needed, and Central Hudson's and Niagara Mohawk's successful efforts to accelerate their pace of RTP implementation bodes well for other utilities in efforts to bring RTP to more customers.

Accelerating the implementation of RTP is a necessary response to burdensome electricity price increases. Those prices can be expected to trend downward with the decline in peak period usage and the reduction in dependence on natural gas as a generation fuel that will attend the more widespread deployment of RTP. These RTP benefits can be realized promptly, with the potential for impacts adverse to the interest of any particular customer addressed while implementation of RTP proceeds.[5]

With the acceleration of the implementation of RTP, utilities no longer need to develop the targets, prescribed in the Marketing Compliance Order, for enrolling customers into voluntary participation in RTP. Utilities are therefore excused from making the filings, due October 7, 2005 under that Order, that would identify those targets.

Finally, interested parties are invited to comment on the draft tariffs and the outreach and education plans that the utilities will file. Those comments will be due 60 days after the date the utilities make their filings. To the extent this deadline might fall after the expiration of the time period for making comments in this proceeding established under State Administrative Procedure Act §202(1), comments will be accepted until the later date.

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[5] In making their customer-specific outreach efforts, utilities should assist those customers unable to respond to RTP because of their inflexible load characteristics, like health care facilities, in seeking out competitive market alternatives to RTP, including purchasing commodity at fixed prices from energy services companies (ESCOs).

The Commission orders:

1. The major electric utilities listed in the body of this Order shall make the filings of draft tariffs and outreach and education plans required in the body of this Order within 60 days of the date of this Order, and are excused from making the October 7, 2005 filings previously required in this proceeding.

2. Interested parties may comment on the utilities' filings required in Ordering Clause No. 1 by filing, within 60 days after the utilities make their filings, an original and five copies of comments with Jaclyn A. Brilling, Secretary, Department of Public Service, Three Empire State Plaza, Albany, New York 12223-1350.

3. The Secretary is authorized to extend these deadlines.

4. This proceeding is continued.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary