ORANGE AND ROCKLAND UTILITIES, INC.

POLICY PANEL
UPDATE/REBUTTAL TESTIMONY – ELECTRIC & GAS

Q. Please state your names.

A. Francis W. Peverly and Christina Ho.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. We previously submitted direct testimony on behalf of Orange and Rockland Utilities, Inc. ("Orange and Rockland," "O&R" or "Company") as the Policy Panel ("Panel").

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

A. Our rebuttal testimony will address proposals and assertions made in direct testimony submitted by the following parties: Staff Gas Programs & Supply Panel ("SGPSP"), Staff Electric Infrastructure and Operations Panel ("SEIOP"), Pace Energy and Climate Center ("Pace") witness Karl Rabago, New York Geothermal Energy Organization ("NYGEO") witness Jens Ponikau, Alliance for a Green Economy ("AGREE") witness Thomas Acton, and Robert Wyman. Additional details in support of Orange and Rockland's positions will be provided by other Company panels/witnesses, as indicated below.

REBUTTAL

Gas Demand Response/Non-Pipes Alternatives

Q. Does Staff express any concerns with respect to the Company's proposed approach to potential Demand Response ("DR") and Non-Pipes Alternatives ("NPAs")?

A. Yes. The SGPSP contends (pp. 5-6) that the Company needs to be "more aggressive" in its approach to such projects, particularly given that "NPAs are already in place or in the implementation phase at other New York State gas utilities."

Q. Does Staff identify any particular New York State local distribution company ("LDC") as a model for the Company to follow?

A. Yes, the SGPSP points to Consolidated Edison Company of New York, Inc.'s ("Con Edison") Smart Solutions Petition (Case 17-G-0606) as an example of the type of approach that the Company should pursue.

Q. Does the Panel agree with Staff's proposed approach to DR/NPAs?

A. No, we do not. As explained in our direct testimony, as well as the direct testimony of the Company's Gas

Infrastructure and Operations Panel, the Company recognizes the potential value in DR/NPA programs and is committed to exploring these alternative approaches. Notwithstanding this commitment, broad market acceptance of these alternative approaches is untested. Furthermore, regulatory treatment of these alternative initiatives is currently uncertain because the Commission has yet to act on these proposals. Therefore, it is premature to require the Company at this time to develop and implement plans prior to the Commission clarifying the regulatory treatment of pending initiatives, especially given that O&R currently has no forecasted supply constraints, as discussed in Kathleen Trischitta's update/rebuttal testimony.

Q. Does the Company agree that Con Edison's Smart Solutions Petition offers a useful framework for how LDCs might identify and implement viable DR/NPA alternatives?

A. Yes, we do and for this reason, as well as the reasons set forth in the Company's direct testimony, we have been closely monitoring the Smart Solutions proceeding and have been engaged in ongoing discussions with our counter-parts at Con Edison. While we expect to gain valuable knowledge from Con Edison’s experience, the Smart Solutions proceeding is still very early in the process and key issues have yet to be resolved.

Q. Please explain.

A. Under the Smart Solutions petition, Con Edison proposed several discrete initiatives that seek to identify alternative ways to meet customers’ energy needs in order to defer or eliminate additional gas infrastructure. Working with interested parties, Con Edison continues to make progress in advancing these initiatives. However, there have been no Commission orders to date approving any of the proposed initiatives and it remains unclear when such decisions may be expected.

Q. Do any other parties to this proceeding share Staff’s view that the Company should be moving more aggressively to implement DR/NPA programs?

A. Yes, Pace witness Rabago also expresses disappointment that the Company did not propose a more proactive DR/NPA program. Pace recommends that the Company "accelerate and intensify its efforts to develop a framework for developing and evaluating" NPA projects. AGREE witness Acton goes even further, advocating that the Company should establish an Energy Transformation Action Plan that would include a "master schedule for residential heating and cooling systems transformation." As part of this proposed Plan, the Company would cease all conversions to natural gas immediately and commence wholesale conversions to electric heat pumps.

Q. What is the Company's view of these proposals?

A. Orange and Rockland opposes Pace's recommendations for the same reasons discussed above in the Company's response to the SGPSP's recommendations. The Company also opposes AGREE's proposal for several reasons. First, AGREE ignores the immature state of many natural gas alternatives. Second, there is no reasonable basis to believe that customers will select unfamiliar, unproven, and immature technologies like ground source heat pumps when the distillate providers can still aggressively market their commodity. Finally, it is in the best interests of customers (both new and existing) for the Company to leverage the existing system to its best possible utilization to increase system efficiency and support Commission initiatives such as improving the safety of the system through the replacement of leak prone pipe.

Gas Expansion

Q. Please describe the Company's role as the natural gas LDC in its service territory.

A. The Company has an obligation to provide safe and reliable natural gas service to customers requesting such service subject to certain limits, such as availability of gas and the proximity of potential new customers to the Company's gas delivery system. While we support the State's 80x50 greenhouse gas reduction goal, the precise path forward to reach that goal has yet to be determined. That said, in order to meet its customer needs, the Company seeks to provide customers with various options to achieve their energy goals.

Q. Does this effort include exploring viable alternatives to natural gas service?

A. Yes, and as discussed above, the Company is already engaged in evaluating such alternatives. However, the transition taking place in the New York State energy markets is just beginning and the final outcome is anything but clear. For these reasons, the Company supports an approach that allows for the resolution of key issues before the Commission. This will give the Company an opportunity to identify and benefit from the most effective strategies that receive Commission approval before broadly pursuing similar initiatives at Orange and Rockland.

Q. Please describe the proposals made by various parties in this case relating to the Company’s proposed Gas Expansion initiatives as well as the broader issue of whether the Company should be able to add new gas customers.

A. To a large extent, the aforementioned parties all seem to conflate these two separate issues and address them from a broad perspective, proposing that there should be a moratorium on adding any new customers. Two of the parties did specifically identify and make proposals related to the Company's Natural Gas Conversion Programs.

Q. Which parties addressed the specific Natural Gas Conversion Programs the Company proposed in its direct testimony?

A. Pace Witness Karl Rabago addressed all three of the Natural Gas Conversion Programs the Company proposed (*i.e.*, Neighborhood Expansion Program, Non-Residential Entitlements Program, and Customer Excavation Entitlements Program) and Robert Wyman addressed the Neighborhood Expansion Program.

Q. Please describe the Pace and Wyman proposals related to the Neighborhood Expansion Program.

A. Both Pace and Mr. Wyman propose eliminating this program for similar reasons. They argue that gas expansion is incompatible with achieving the state clean energy goals and will, consequently, result in stranded costs when gas infrastructure is ultimately abandoned.

Q. Does the Company agree with these proposals?

A. No, we do not. The New York State Energy Plan recognizes the value in encouraging customer conversion from petroleum distillate fuels to cleaner alternatives, which include natural gas for heating and hot water needs.[1] The Commission has also recently acknowledged the role natural gas conversions can play in meeting state emission reduction goals.[2] The Commission should accordingly reject the Pace and Wyman proposals to eliminate the Neighborhood Expansion Plan.

Q. What are Pace's proposals related to Non-Residential Entitlements Program and Customer Excavation Entitlements Program?

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[1] 2015 State Energy Plan, p. 37.

[2] Case 17-E-0238 – *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service*, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued March 15, 2018) ("NiMo Order").

A. Pace proposes that these initiatives should not be implemented until appropriate evaluation tools can be developed to compare different energy options.

Q. Does the Company agree with this proposal?

A. No, we do not. The development of appropriate evaluation tools should not be permitted to serve as an obstacle to giving customers more options to meet their energy needs. Pace's proposal would unnecessarily limit the options available to customers.

Q. Does the Company agree with the broader proposals made by AGREE witness Acton, Pace witness Rabago, NYGEO witness Ponikau and Robert Wyman, in this case urging a moratorium on adding any new gas customers and in some cases arguing that the Company should proactively dismantle its gas distribution business?

A. No. As explained above, Orange and Rockland has an obligation to provide natural gas service to customers who request it. Moreover, eliminating gas service as an option for customers directly conflicts with established Company and Commission goals, which seek to provide customers with choices to meet their energy needs.

Q. Please continue.

A. In order to both meet customer needs and achieve state policy goals, any transition the Company pursues must be balanced and continue to include natural gas expansion (when and where appropriate) in addition to other energy alternatives. Eliminating natural gas service as an option will likely result in many customers choosing distillate fuel based alternatives rather than non-gas technologies that are unfamiliar, unproven, and often economically unattractive. This could have the paradoxical effect of slowing the adoption of cleaner energy technologies and making it more difficult to achieve state policy goals.

Q. Has the Commission considered in any recent proceedings the arguments made by the intervenors seeking to eliminate gas expansion and/or gas service for any new customer?

A. Yes, in the Order adopting the Joint Proposal in Niagara Mohawk’s recent rate proceedings (Cases 17-E-

0238, *et al.*),[3] the Commission considered and rejected similar arguments made by AGREE and other intervenors to eliminate a proposed gas expansion program. The Commission concluded (p. 68) that, "Although there may be cleaner alternatives to natural gas, the State Energy Plan and NYSERDA agree with our assessment that natural gas offers societal benefits over the use of petroleum distillates." The Commission, therefore, found no inconsistency between the continuation of Niagara Mohawk's gas expansion program and the state's greenhouse gas reduction goals.

Q. Does Staff offer any proposals with respect to the Company's efforts to continue adding new customers?

A. Yes, the SGPSP's proposals regarding this issue are addressed in the rebuttal testimony of Company witness Trischitta.

<u>Major Storm Reserve</u>

Q. The SEIOP agrees with the Company's proposal to charge the Major Storm Reserve for pre-staging and/or mobilization costs exceeding $100,000 per storm

[3] NiMo Order.

incurred for storms that ultimately do not meet the definition of a major storm, but recommends that the Company's right to charge the reserve in such circumstances be capped at a maximum of three events per Rate Year. Do you agree with Staff's proposed cap?

A. No, we do not.

Q. What is the basis of Staff's recommendation?

A. Staff says its proposal is consistent with what is allowed by the Commission for other New York State utilities and that the three-event cap is the most permitted for any utility in the State.

Q. Is this a reasonable basis for establishing a cap for O&R?

A. No, it is not.

Q. Please explain why.

A. The SEIOP states (p. 70) "Being prepared for a storm is key to a proper response." The Company agrees. And undoubtedly the SEIOP expects the Company to prepare for every major storm and not up to three major storms per year. Accordingly, capping recovery of pre-staging and mobilization costs at three events is arbitrary. If during any Rate Year the Company properly mobilizes for more than three storm events, there is no basis for treating the Company's recovery of costs for the additional events differently from costs incurred to mobilize for the first three events.

Q. Why is this cap arbitrary?

A. Recovery of pre-staging and mobilization costs is a relatively new feature of major storm reserves. While we appreciate that the Commission has recognized that pre-staging and mobilization costs for storms that do not materialize should be part of New York utility major storm reserve mechanisms, we do not believe there is currently a basis for establishing a cap on the number of such events.

Q. Please explain why.

A. Over the past several years, the nature of a utility's preparations in response to an alert from the national weather service or a utility's private weather service has been evolving, as have been the emergency response plans developed by each utility for implementation when an event is expected to impact the company's service territory. These plans have been informed by individual utility studies, actual events and a statewide effort that evaluated, among other matters, utility staffing levels.

Recognizing that it is not feasible or economic for a utility to staff to meet peak storm requirements, pre-staging and mobilizing resources from other utilities and contractors are critical elements of a utility's storm response plan.

Q. Is the ability to mobilize third party resources also evolving?

A. Yes. Because enhanced storm preparation is not limited to New York, the Company has been experiencing with increasing regularity utilities in other states withholding resources within their jurisdictions until the storm danger has passed or, if impacted by the storm, until their customers have been restored to service.

And since most of the bad weather experienced by the Company comes from the south to the north and from west to east, neighboring utilities (other than in New England) are often impacted before the Company and its customers. Absent early and aggressive efforts by the Company to firm up neighboring resources when there is an impending storm, the availability of these additional resources will decrease and the cost of resources that are available will increase.

Accordingly, separate and apart from the unpredictable nature and timing of major weather events, there is no reasonable historical basis upon which to develop a targeted number of events for which a utility should be able to reasonably manage pre-staging and mobilization costs for major storms that do not materialize.

Q. If there was a reasonable historical basis for pre-staging costs, would a cap then be appropriate?

A. Not in our view. We see no reason why such costs should not be treated like response and restoration costs, where the amount of dollars reflected in the major storm reserve for response and restoration costs are based upon experience during a multiyear past period and not subject to a cap.

While we appreciate Staff proposing that the Company be given a cap equal to the highest cap currently in effect for other New York utilities, we understand such cap to be the product of settlement discussions that resolved a myriad of issues for each utility that has such a cap. The cap is not otherwise based on any data that indicates a utility may not reasonably experience more than three events for which pre-staging and mobilization is the right response to an impending storm that, fortunately, does not materialize.

Q. Is there another reason for not establishing such a cap?

A. Yes. As demonstrated by the reaction of both the public and elected officials to the March 2018 winter storms, there is an increased expectation of service continuity notwithstanding that outages result from major storm events. Pre-staging and mobilizing resources is a necessity if these expectations are to be met. And the Company should be able to pre-stage and mobilize these resources with the right financial protections in place so all parties can focus on response and restoration and not fiscal concerns. Imposing Staff's proposed cap in this new environment is inappropriate and counterproductive.

Q. Why would the cap be inappropriate and counter-productive?

A. Staff's proposal could, for example, potentially provide the Company with a financial disincentive to implement other O&M programs important to customer interests.

Q. Please explain.

A. If for example O&R experiences three mobilization events early in a Rate Year that do not ultimately result in a major storm, it is reasonable to assume that O&R may experience one or more such events before the Rate Year is over. In order to manage its overall O&M expenditures to a reasonable level and still be prepared to mobilize for events that are expected to constitute a major storm, O&R may need to defer until the following year(s) other planned activities that are designed to produce customer benefit. The major storm reserve should be designed to avoid having appropriate storm response activities otherwise interfere with planned programs designed to produce customer benefits.

Q. Do you have any additional comments on this matter?

A. Yes. We note that the costs to be recovered through the major storm reserve, including these pre-staging and mobilization costs, are subject to Staff audit. Accordingly, customers would not be responsible for costs that the Company does not prudently incur in preparing for impending storms.

Q. How do you recommend the Commission address this matter?

A. We recommend that the Commission adopt the O&R proposal as submitted, that no cap be established, and that O&R be directed to present as part of its next rate filing data associated with its pre-staging and mobilization costs during the prior period so that the major storm reserve appropriately reflects pre-staging and mobilization costs, subject to reconciliation. If the Commission determines that a cap should be established in this proceeding, the Commission should provide O&R the right to seek reimbursement if the Company experiences more than three such events by petition to the Commission without having to meet the traditional criteria associated with a deferral petition.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.