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June 15, 2009

VIA HAND DELIVERY AND E-MAIL

Honorable Jaclyn A. Brillling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223

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Re: Case 09-M-0074 – In the Matter of Advanced Metering Infrastructure

Dear Secretary Brillling:

Pursuant to the New York State Public Service Commission's ("Commission") April 14, 2009 Notice Seeking Comment in the above-referenced proceeding,¹ New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation (collectively, the "Companies") hereby submit comments on the Department of Public Service's Proposed Framework for the Benefit-Cost Analysis of Advanced Metering Infrastructure (the "Proposed Framework"). The Proposed Framework notes that its issuance starts a process "designed to yield a methodology for benefit-cost analysis [for Advanced Metering Infrastructure] that is robust, is consistent across New York's utilities and reflects the input of interested parties."² While the Proposed Framework is thorough and comprehensive, there are a few areas that need improvement. The Companies' specific suggestions follow.

A. New York Independent System Operator Benefits

The Proposed Framework sets forth categories of benefits to be included in any Advanced Metering Infrastructure ("AMI") benefit-cost analysis. In addition to system operations, customer service, demand response and management and other benefits (which were

¹ Case 09-M-0074 – In the Matter of Advanced Metering Infrastructure, Notice Seeking Comment (Apr. 14, 2009).

² Proposed Framework at 2.

identified in the California framework relied upon by Department of Public Service Staff),³ the Proposed Framework includes "New York Independent System Operator (NYISO) Benefits."⁴ The Companies are not in the best position to estimate these benefits as they do not have access to all relevant and necessary information. As such it would be difficult for the Companies to include any potentially positive NYISO benefits in a benefit-cost analysis. The Companies therefore recommend that the NYISO publish a report on the benefits of AMI that could be used by all utilities in preparing an AMI business case.

B. Advanced Meter Reading ("AMR") and Load Control Alternatives

The Proposed Framework requires utilities to estimate the capital and operational and maintenance costs of the metering, billing and communication systems infrastructure for three scenarios: 1) business as usual; 2) full-scale AMI rollout; and 3) full-scale AMR rollout with targeted direct load control.⁵ For the full-scale AMR rollout with targeted direct load control scenario, the Proposed Framework states that the benefits discussion should "explicitly specify whether or not the expected operational benefits from a full-scale roll out of an AMI system can be captured through a roll out of AMR and [direct load control]."⁶ While it may seem reasonable on its face to compare AMI's costs and benefits to AMR, it could be counter-productive.⁷ Utilities that are uncomfortable today estimating benefits of outage restoration recovery, demand response pricing and long-run efficiencies in distribution and transmission investment may calculate that the AMR with load control alternative is a preferred option over AMI. Such calculations could easily prove to be short-sighted as evidence on AMI accumulates and, if acted upon, would effectively pre-empt the introduction of AMI for a significant number of years.⁸ In addition, the benefits of a load control program depend importantly on regular monitoring of the load control to ensure that it has not been disconnected by the customer. AMI is a valuable tool for monitoring load control. Finally, the realization of the NYISO benefits discussed above could be jeopardized if utilities chose AMR over AMI. NYSEG and RG&E, therefore, request that the Commission eliminate the requirement that AMI needs to demonstrate positive economics relative to AMR and direct load control.

³ Id. at 6.

⁴ Id. at 11-12.

⁵ Id. at 3.

⁶ Id. at 4.

⁷ The Companies assume that AMR would consist of a drive-by system with a direct load control overlay.

⁸ Once AMR is installed, there are no more meter reading savings to be realized and it becomes much harder to demonstrate the economics of AMI.

C. Demand Response Pilots

The Proposed Framework encourages pilot testing by stating "[p]ilots proposed by New York utilities may help build confidence in the estimate of the value of demand response available from AMI."⁹ In the context of AMI, pilots can be expensive and lengthy.¹⁰ It may also be very difficult for pilots to obtain a representative set of participants. Moreover, the pilots that have already occurred adequately document demand response results. By encouraging pilot testing, the Proposed Framework would delay implementation of AMI. In light of the fact that pilots may not yield any new information, the recommendation in the Proposed Framework to conduct pilots is not preferable. Nonetheless, the Companies may pursue stimulus funds through federal funding available from the American Recovery and Reinvestment Act of 2009 to perform smart grid demonstration projects in the future that would include a demand response pilot. The Companies will do so provided the Commission concludes that such pilots should be conducted and the Companies receive stimulus funding and full regulatory recovery.

D. Discount Rate

Section 4 of the Proposed Framework sets forth analysis parameters that should be used consistently across all cases. One of the parameters is a "discount rate equal to 5.5% in nominal terms."¹¹ The Companies interpret this language to mean that the 5.5% discount rate is a real (*i.e.*, net of inflation) weighted after-tax cost of capital number. The Companies request that the Commission confirm this interpretation.

E. Class Load Shape Versus Actual Customer Load Shape

Section 5 of the Proposed Framework sets forth a recommendation on dynamic pricing made by Working Group VIII from the Energy Efficiency Portfolio proceeding.¹² Working Group VIII recommends that the Commission encourage "Program Administrators to work jointly to test three dynamic pricing options" in order to "get a better understanding of the benefits and cost effectiveness of such tariffs in New York."¹³ The recommendation also outlines some "lessons learned" from other pricing pilots that should be used as a guide for Program Administrators in designing and testing dynamic prices.¹⁴ One of the "lessons" relates

⁹ Proposed Framework at 14.

¹⁰ For example, the California pilot referenced in the Proposed Framework lasted three years and cost tens of millions of dollars.

¹¹ *Id.* at 13.

¹² *Id.* at 13-14, citing, Case 07-M-0548 – Energy Efficiency Portfolio Standard, Working Group VIII – Report on Demand Response and Peak Reductions at 23 (Oct. 17, 2008).

¹³ *Id.* at 13.

¹⁴ *Id.*

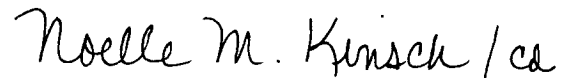
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to ESCO customer electric usage. It states that "[i]f an ESCO customer's electric usage is measured by hourly meters, then the ESCO needs to be billed on their customer's actual load shape instead of a class average load shape."¹⁵ While generally endorsing the recommendation, Staff allowed ESCOs to choose, for each customer, whether the ESCO is billed on class load shape or the customer's hourly load.¹⁶ The Companies disagree with Staff.

The best data to use for customer billing and settlement is hourly load data because it is more accurate and advanced than class load shape. Using class load shapes also has the potential for gaming in determining whether hourly loads or class loads are more beneficial for each customer. The use of class load shapes would also increase Unaccounted for Energy and the associated increased costs would need to be spread to everyone else. In addition, it would be administratively burdensome to allow ESCOs to choose hourly loads or class loads for each customer and to determine how often ESCOs could make that decision. Accordingly, NYSEG and RG&E request that the Commission deny Staff's proposed alteration to the Working Group VIII recommendation.

If you have any questions regarding these comments, please contact me.

Respectfully submitted,



Noelle M. Kinsch

cc: Active Party Service List (via e-mail)
AL-101415.2

¹⁵ Id. at 14.

¹⁶ Id.