BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Niagara Mohawk Power Corporation

Case 12-E-0201

August 2012

Prepared Testimony of:
Staff Electric Rate Panel -
Corrected

Hieu Cam
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Water

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

A. Hieu Cam and Liliya Randt. 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. Mr. Cam, what is your position at the Department?

A. I am employed as a Utility Engineer 1 in the Major Utility Rates Section of the Office of Electric, Gas and Water.

Q. Mr. Cam, please state your educational background and professional experience.

A. I received a Bachelor of Science Degree in Civil Engineering from Clarkson University in 2007. After graduating from Clarkson University, I worked for The Whiting-Turner Contracting Company where my responsibilities included estimating projects, monitoring sub-contractors, drafting bid documents, and performing field inspections to ensure work was done in accordance with plans and specifications. In 2008, I returned to Clarkson University where I obtained a Master of Science in Civil

Engineering. I joined the Department in 2010 as a Junior Engineer.

Q. Have you previously testified before the Public Service Commission?

A. Yes, I previously testified in Case 11-G-0280 regarding loss and unaccounted for gas, cost of service, rate design, and sales forecast.

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

A. I am employed as a Utility Engineer 2 in the Major Utility Rates Section of the Office of Electric, Gas and Water.

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

A. I graduated magna cum laude from the State University of New York, Institute of Technology at Utica with a Bachelor of Science degree in Mechanical Engineering Technology in May 2004. I also received a Master Degree in Civil Engineering from Poltava Technical University, Ukraine in 1997. I began my employment with the Department in April 2005. While with the Department, 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 duties include engineering analyses of utility rate, pricing, and tariff proposals.

Q. Have you previously testified before the Commission?

A. Yes, I testified in two Consolidated Edison Company of New York, Inc.’s steam rate cases, 05-S-1376 and 07-S-1315, regarding the embedded cost of service study, rate design and other revenue requirement issues. I testified in the Freeport electric rate case, 06-E-0911, regarding capital expenditures, depreciation, and rate design. I testified in several Orange and Rockland Utilities, Inc.’s electric rate cases, 06-E-1433, 07-E-0949, 10-E-0362 and 11-E-0408, regarding the delivery revenue forecast, ECOS and rate design issues. I also testified regarding various issues in Cases 07-E-0523, 08-E-0539 and 09-E-0428, Con Edison - Electric Rates.

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) prefiled testimony: (1) the Company's Embedded Cost of Service study; (2) revenue allocation; (3) price out of Staff’s sales forecast; and (4) our proposed Merchant Function Charge adjustment.

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 of Public Service Staff Information Requests. These responses are included in the Staff Accounting Panel’s Exhibit __ (SAP-3).

Q. Are you sponsoring any exhibits?

A. Yes. We are sponsoring Exhibit__ (SERP-1 corrected), Exhibit__ (SERP-2 corrected), Exhibit__ (SERP-3 corrected), Exhibit__ (SERP-4 corrected), Exhibit__ (SERP-5 corrected) and Exhibit__ (SERP-6 corrected).

Q. Would you briefly describe each exhibit?

A. Exhibit__ (SERP-1 corrected) contains our proposed revenue allocation for the Rate Year,

the twelve months ending March 31, 2014.
Exhibit__ (SERP-2 corrected) contains summary bill impacts for typical customer bills for the Rate Year.
Exhibit__ (SERP-3 corrected) contains present typical bill impacts for the Rate Year.
Exhibit__ (SERP-4 corrected) contains summary bill impacts for typical customer bills for the Rate Year reflecting the reduction of the deferral surcharge.
Exhibit__ (SERP-5 corrected) contains typical bill impacts for the Rate Year reflecting the reduction of the deferral surcharge.
Exhibit__ (SERP-6 corrected) contains our proposed electric forecasted rate year revenues at current rate levels.
Exhibit__ (SERP-7 corrected) contains our proposed MFC adjustment.

Embedded Cost of Service Study (ECOS)

Q. Did you examine the ECOS study submitted by the Company?

A. Yes.

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

A. The ECOS study allocates the Company's operating costs to the different service customer classes based on an analysis of the rate base and operating expenses associated with each service class for rate year ending March 31, 2014.

Q. Please continue.

A. There are two major steps in developing an ECOS study: (1) the functionalization and classification of costs to operating functions, such as to production, transmission and distribution, customer accounting and customer service; and (2) the allocation of each classified function to the individual service classes based on selected characteristics. The final output of the ECOS study is a summary of the overall system and individual class rates of return, based on rate year revenues. This provides an indication of the extent to which each class contributes to the total system rate of return.

Q. Do you take issue with any aspect of the Company’s ECOS study?

A. Yes. We propose to use an historic ECOS versus a pro-forma ECOS study that the Company filed in this proceeding.

Q. What did the Company and Staff propose in the last rate proceeding, Case 10-E-0050?

A. The Company proposed a pro-forma study in case 10-E-0050. Staff, on the other hand, proposed the use of a historic ECOS study in its testimony in the last rate case. As a result of settlement discussions, the parties agreed to the use of a pro-forma study in the Company's last rate proceeding.

Q. Please describe the Company's proposed pro-forma study.

A. The Company presented a pro-forma study for the Rate Year 2014 to allocate cost elements among rate classes. The result of the ECOS study shows the earned return on rate base at current rates for the rate classes served by the Company and the relative rates of return. It also shows the change in base distribution revenue required for each class to produce the rate of return on rate base requested by the Company in this proceeding, 7.38%.

Q. Please explain why the Panel proposes to use an historic ECOS study?

A. The historic study incorporates actual cost data, as recorded on Niagara Mohawk books, whereas the pro-forma study reflects Rate Year forecasts for system loads, expenses and rate base. Thus, any inaccuracy of the forecasts used in the pro-forma study can have a significant impact on its results. The pro-forma study has the potential to introduce errors because they are based upon forecasts of future costs and revenues. Further, using a forecast pro-forma study requires that the study be updated after the Commission renders its final rate case determination. We prefer using the historic ECOS study since all costs and cost allocators are known and updates are not required.

Q. Did the Company perform an historic ECOS?

A. Yes. The result of the historic ECOS was provided in response to IR DPS-338 (LAR-4).

Q. Do you propose any modifications to the historic ECOS study?

A. Yes. We propose two modifications to the historic ECOS study. The first modification is in regard to the classification of the customer component of account 368, line transformers. In its pro-forma study, the Company classifies the total cost of line transformers as demand-related costs. We believe that a portion of line transformer costs should be classified as customer-related.

Q. Why do you believe a portion of line transformer costs should be classified as customer-related costs?

A. According to NARUC, the National Association of Regulatory Utility Commissioners, in its Electric Utility Cost Allocation Manual (January 1992), it states that distribution plant accounts 364 through 370 involve demand and customer costs. Therefore, the total dollars in Account 368 – Line Transformers should be assigned to both customer and demand components, similar to the way the Company assigned the costs in accounts 364-367. We recommend that the line transformer costs be classified into

customer and demand components using a method based on labor costs.

Q. Why should line transformer costs be classified into customer and demand components based on labor costs?

A. Labor costs are largely independent of conductor capacity and, therefore, are generally unrelated to demand. Labor costs are more closely related to the number of customers attached to the system versus the demand they place on the system. Therefore, labor costs provide a reasonable basis to determine the customer related portion of certain plant accounts. As such, we recommend that labor costs be used for account 368, which is the same method used by the Company to classify other distribution plant accounts 364-367, such as poles, towers, fixtures, underground and overhead conductors, into customer and demand components.

Q. Have you performed your recommended classification of line transformers costs and examined the results?

A. Yes. In Attachment 2 of the response to DPS-338 (LAR-4), the Company provided the labor portion

of total capital costs for line transformer assets for the years 2008-2011. The Company added all labor related costs and divided them by the total costs for the transformers account. This resulted in 33.74% of the costs being related to labor. The Company then applied the 33.74% to the total dollars in account 368-line transformers to classify a portion of these costs as the customer component. The total dollars in the account, minus the amount that we classified as customer-related, are the dollars that we would classify as demand related. Taking these two totals, we determined the percentage split between customer and demand, which we then applied in the ECOS study.

Q. What is the second modification that you recommend be done to the historic ECOS study?

A. We propose that the revenues and expenses be adjusted, in a revenue neutral manner, to reflect the elimination of the Replacement Power and Expansion Power (R&E) discounts; the elimination of the High Load Factor discount; the reclassification of R&E customers, and

historic year canceled bills for two large customers served under SC3 and SC3-A.

Q. Please briefly explain each of these adjustments.

A. The R&E discount is equal to the difference between the revenues at the standard tariff rates and the historic test year grandfathered rate of $1.52 per kW, which is currently being phased-in to full standard tariff rates as of January 1, 2012. The High Load Factor discount is equal to the difference between the revenues at the standard tariff rates and the revenues at the current rates for high load factor which is currently $2.08 per kW. The R&E customers rate reclassification provided that the total load, including all Expansion Power and Replacement Power demand, will be used in determining each customer’s parent service classification during the phase-in period to full standard tariff delivery rates and continuing for as long as the customer pays full standard tariff delivery rates. The net revenue differences in the Historic Test Year caused by cancel bills for two large customers which were for prior years.

Q. Why are these modifications needed?
A. These modifications are needed because the revenues associated with these discounts were not present in the historic year. The ECOS study should to be adjusted to account for these changes in order to better reflect the historic year revenues that would have occurred absent the discounts, which are being eliminated.
Q. Using the Panel's two modifications to the ECOS study, how do the results of your ECOS study differ from the Company's pro-forma study?
A. Page 3 of Attachment 2 of the Company's response to IR DPS-338 (LAR-4) presents the results of our recommended adjusted historic ECOS study. In summary, the overall system rate of return is slightly lower, 4.68% instead of 5.45% as filed. The Residential SC1 class now produces a slightly lower rate of return of 3.41% instead of 4.63% and the SC3 Large General Primary class shows a rate of return of 9.16% instead of 6.92% as filed. Lastly, the SC-3A Large General time of use transmission class resulted in lower rate of return of 0.10% instead of 3.29% as filed.
Q. Do you agree with these results?

A. Yes.

Revenue Allocation

Q. Have you reviewed the Company's proposed transmission and distribution revenue allocation?

A. Yes. The Company used as guidance the revenue allocation approach presented in the Orange and Rockland Joint Proposal dated February 24, 2012 in Case 11-E-0408, which followed the approach adopted by the Commission in Orange and Rockland Utilities' most recent litigated electric base rate proceeding, Case 10-E-0362.

First, the Company realigns revenue at present rates so each rate class moves one-third of the way toward eliminating its surplus or deficiency compared to the system average return. The second step is to allocate the increase in revenue across all the rate classes, in proportion to the realigned revenue. The third step is to mitigate any extreme rate impacts by adjusting class revenues so that no class has an increase greater than 1.5 times the system average.

Q. Do you generally agree with this approach?

A. Yes. Revenue allocation should reflect the results of the ECOS study, while mitigating extreme rate impacts on any individual rate class and on individual customer subgroups.

Q. Has the Panel prepared a revenue allocation?

A. Yes, we have performed a revenue allocation using the same general approach as just described, but using the modified Historic ECOS study and the revenue requirement provided by the Staff Accounting Panel. In addition, because Staff's proposed rate year delivery revenues are lower than the historic period delivery revenues, we propose to not limit the impact on any particular rate class to 1.5 times the system average decrease, which is -0.02%. Our revenue allocation is provided as Exhibit__ (SERP-1 corrected).

Revenue Forecast

Q. Have you reviewed Niagara Mohawk's forecasted rate year revenues at current rate levels?

A. Yes. As reflected in Company Exhibit__ (E-RDP-4), Schedule 2, the Company forecasts collecting $2.430 billion in total revenues during the rate year at current rate levels based on its sales

forecast of 32,967 Gigawatt hours.

Q. Does Staff propose a different sales forecast for the Rate Year?

A. Yes. Staff witness Stella is proposing a sales forecast that is lower than the level of sales reflected in the Company's forecast by 275 Gigawatt hours.

Q. Have you developed an adjustment to the rate year revenues based on Staff's forecast of sales?

A. Yes. We estimate that the rate year revenues at current rates forecasted by the Company should be decreased by $10.2 million.

Q. Please explain how you arrived at your adjustment.

A. The Company provided a model that priced out the rate year revenues at current rates based on its forecasted customer and sales levels. We used this model to calculate the level of rate year revenues that would be collected at current rates based on Staff's sales forecast. Our adjustment includes Gross Revenues Taxes. We provided our price-out of the decrease in sales to the Staff Accounting Panel.

Time Differentiated Delivery Rates

Q. Did the Company propose to offer any time differentiated delivery rates at this time?

A. The Company is not proposing to offer any time differentiated delivery rates for any of its service classifications. However, as referenced in the Company's testimony, the Company is prepared to work with Staff to determine which service classes and under what circumstances time differentiated delivery rates would be suitable.

Q. What is your view of this proposal?

A. We are willing to work with the Company and any other interested parties in developing time differentiated delivery rates and recommend that the Company file a report which describes these efforts and the feasibility of time differentiated delivery rates with the Secretary no later than 90 days after the Commission Order in this case.

Merchant Function Charge (MFC)

Q. Does the Company currently have a Merchant Function Charge?

A. Yes. The MFC consists of four components: (1)

commodity-related credits and collections, (2) uncollectibles, (3) costs associated with electric supply procurement and (4) a return requirement for working capital.

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

A. Yes, we are proposing adjustments to the uncollectibles and commodity related working capital. Exhibit__ (SERP-7_Corrected) shows the MFC revenues reflected from these adjustments.

Q. How does the Company calculate the credits and collections component of the MFC?

A. The revenue requirement associated with the credits and collections component of the MFC was determined from the Cost of Service Study. The amount was allocated between demand, non-demand, and street lighting proportionally using the forecast of uncollectible commodity revenue from full service customers and customers in the Purchase of Receivables (POR) program. Different rates are established for demand, non-demand, and street lighting customers by dividing the revenues allocated to each group with the forecast full service and POR kW-hr in

each group. This results in $0.00062/kWh, $0.00006/kWh, and $0.00006/kWh for non-demand, demand, and street lighting customers, respectively.

Q. The Company proposes to continue the annual reconciliation of the credit and collection component to the target. Does the Panel agree with the Company's proposal?

A. Overall, we agree with the Company's proposed target and the annual reconciliation for the commodity related credit and collections component of the MFC.

Q. How does the Company propose to calculate the uncollectible expense?

A. The Company calculates the uncollectible rate by dividing the test year (twelve months ending December 2011) net write-offs by the sum of total test year revenues including sales revenues, late payment charges revenues, and receivables purchased under the Purchase of Receivables program. The uncollectible rate is established for demand, non-demand, and street lighting by allocating net writing offs using historic write-offs. The resulting

uncollectible rates for demand, non-demand, and street lighting customers are $0.00011/kWh, $0.00099/kWh, and $0.00009/kWh, respectively.

Q. Does the Panel agree with the Company's proposal?

A. Overall, we agree with the Company's proposal for allocation of the uncollectible expenses to demand, non-demand, and street lighting. However, we recommend adopting uncollectible rates for these customers using an average of the most recent three years as recommended by the Staff Accounting Panel. The resulting uncollectible rates for demand, non-demand, and street lighting customers are $0.00012/kWh, $0.00099/kWh, and $0.00006/kWh, respectively.

Q. How does the Company calculate the supply procurement component of the MFC?

A. Relying on the results of the pro-forma Embedded Cost of Service Study model, the Company proposed to update its supply procurement expense to $1,313,697 which resulted in a rate of $0.00010/kWh. The unit price is calculated by dividing the supply procurement expense by the latest sales forecast. The Company proposed

to continue the current annual reconciliation to the rate year target.

Q. Does the Panel agree with the Company's proposal to update the target to $1,313,697 and to continue the annual reconciliation?

A. Yes. We believe the Company's proposal to set the supply procurement at a reconcilable target of $1,313,697 is reasonable.

Q. How did the Company calculate the commodity-related working capital?

A. The Company determined the working capital percentage related to electric purchased power by multiplying the pre-tax weighted cost of capital by the lead/lag percentage resulting in a total cost of $ 2,556,061. The rate for the commodity related working capital is 0.406%. The resulting charge associated with commodity related working capital is 0.00019$/kWh based on the Company's project kWh price.

Q. Does the Panel agree with the Company's method to determine the working capital percentage?

A. We disagree with the calculation of the working capital percentage. Similar to the commodity-related working capital for gas purchases, we

recommend using the Commission's "Other Customer Capital Rate" as oppose to the pre-tax weighted cost of capital to determine the working capital percentage. Our recommendation results in an estimated target of $801,688 based on the Company's forecasted commodity cost.

Q. What is the basis for Panel's proposal?

A. As previously discussed, the MFC has four components; commodity related working capital, credits and collections, uncollectible expenses, and supply procurement. The current MFC charge allows credits and collections and supply procurement to be reconciled to an annual target on an annual basis. The remaining two components, commodity related working capital and uncollectibles, are self-reconciled because 1) the revenues are calculated based on commodity cost and 2)the commodity cost is adjusted on a monthly basis to reflect the difference between actual and estimated from the previous month. The reconciliation of all of these components would eliminate the Company's financial risks and, as a consequence, we do not

believe the Company should earn pre-tax rate of return on investments with little or no risks.

Q. Can the Panel provide an example of similar treatments of investments where the Company is only allowed the Commission's "Other Customer Capital Rate"?

A. Gas companies reconciled their gas costs for the recent twelve month period ending in August 31 annually. The actual gas costs are reconciled with the estimated gas costs the Company charged customers for the preceding twelve months. The differences are surcharged or refunded to the customers for the subsequent twelve month period. During that refund/surcharge period, the remaining balance earns an interested determined from "the other customer capital rate." Similar to the Gas Adjustment Clause, the costs associated with spending the money to procure commodity has no risks and are fully recoverable should only earn interest determined from the Commission's "Other Customer Capital Rate."

Q. Does this conclude your testimony at this time?

A. Yes.