

BEFORE THE  
NEW YORK STATE  
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
New York State Electric & Gas Corporation  
for Electric Service

Case 15-E- \_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
New York State Electric & Gas Corporation  
for Gas Service

Case 15-G- \_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Rochester Gas and Electric Corporation for Electric  
Service

Case 15-E- \_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Rochester Gas and Electric Corporation for Gas Service

Case 15-G- \_\_\_\_

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**DIRECT TESTIMONY OF  
ELECTRIC SUPPLY AND NATURAL GAS SUPPLY AND  
EXPANSION PANEL**

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**DIRECT TESTIMONY OF ELECTRIC SUPPLY AND NATURAL  
GAS SUPPLY AND EXPANSION PANEL**

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**I. INTRODUCTION**

1

2 Q. Please state the names of the members on this Electric Supply and Natural Gas  
3 Supply and Expansion Panel (“Panel”).

4 A. We are Mark R. Beaudoin, Lori A. Cole, Jeffrey M. Converse, Patrick W. Fox,  
5 David L. Gridley, and David J. Kimiecik.

6 Q. Mr. Beaudoin, please state your title and business address.

7 A. I am the Director of Customer Services and Systems. My business address is 18  
8 Link Drive, Binghamton, New York 13902.

9 Q. Please summarize your educational background and work experience.

10 A. My Curriculum Vitae (“CV”) is attached as Exhibit \_\_ (ESNGSEP-1).

11 Q. Have you previously testified in other proceedings before the New York State  
12 Public Service Commission (“PSC” or the “Commission”) or any other state or  
13 federal regulatory agency or court?

14 A. No.

15 Q. Ms. Cole, please state your title and business address.

16 A. I am the Manager of Regulatory & Tariffs in the Rates & Regulatory Economics  
17 Department. My business address is 18 Link Drive, Binghamton, New York  
18 13902.

19 Q. Please summarize your educational background and work experience.

20 A. My CV is attached as Exhibit \_\_ (ESNGSEP-1).

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1 Q. Have you previously testified in other proceedings before the Commission or any  
2 other state or federal regulatory agency or court?

3 A. Yes, I testified in Cases 09-E-0715, 09-G-0716, 09-E-0717 and 09-G-0718.

4 Q. Mr. Converse, please state your title and business address.

5 A. I am the Manager of Electric Supply. My business address is 18 Link Drive,  
6 Binghamton, New York 13902.

7 Q. Please summarize your educational background and work experience.

8 A. My CV is attached as Exhibit \_\_ (ESNGSEP-1).

9 Q. Have you previously testified in other proceedings before the Commission or any  
10 other state or federal regulatory agency or court?

11 A. Yes. I testified previously before the Commission in the early 1990s as part of the  
12 Commission's long-run avoided cost proceedings. More recently, I testified in  
13 Cases 09-E-0715, 09-G-0716, 09-E-0717, and 09-G-0718.

14 Q. Mr. Fox, please state your title and business address.

15 A. I am the Manager of Energy Supply (Gas). My business address is 18 Link Drive,  
16 Binghamton, New York 13902.

17 Q. Please summarize your educational background and work experience.

18 A. My CV is attached as Exhibit \_\_ (ESNGSEP-1).

19 Q. Have you previously testified in other proceedings before the Commission or any  
20 other state or federal regulatory agency or court?

21 A. I have not testified before the Commission. However, prior to my employment at  
22 the Companies, I testified on various gas and electric issues before the Public

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1 Service Commission of Wisconsin and the Michigan Public Service Commission.

2 I have also testified before the U.S. Court of Appeals for the D.C. Circuit in  
3 support of a complaint against the Midwest Independent Transmission System

4 Operator in Federal Energy Regulatory Commission (“FERC”) Docket

5 No. EL03-40.

6 Q. Mr. Gridley, please state your title and business address.

7 A. I am the Manager of Marketing and Sales. My business address is 18 Link Drive,  
8 Binghamton, New York 13902.

9 Q. Please summarize your educational background and work experience.

10 A. My CV is attached as Exhibit \_\_ (ESNGSEP-1).

11 Q. Have you previously testified in other proceedings before the Commission or any  
12 other state or federal regulatory agency or court?

13 A. No.

14 Q. Mr. Kimiecik, please state your title and business address.

15 A. I am the Vice President of Energy Services. My business address is 18 Link  
16 Drive, Binghamton, New York 13902.

17 Q. Please summarize your educational background and work experience.

18 A. My CV is attached as Exhibit \_\_ (ESNGSEP-1).

19 Q. Have you previously testified in other proceedings before the Commission or any  
20 other state or federal regulatory agency or court?

21 A. I have not testified before the Commission. Before FERC, I submitted an  
22 affidavit in support of NYSEG in Docket No. EL00-70-000.

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1 Q. What is the overall purpose of the Panel’s testimony?

2 A. The Panel discusses:

3 1) Supply Strategies, Plans, and Policies for Electric Supply and Gas Supply;

4 2) Gas Station Heater Fuel Cost Recovery;

5 3) The Gas Cost Incentive Mechanism;

6 4) The Natural Gas Expense Forecast;

7 5) Retail Access Programs;

8 6) Compressed Natural Gas;

9 7) Marcellus Shale Related Issues;

10 8) Gas Expansion Programs; and

11 9) Interconnection Requests.

12 **II. SUMMARY AND IDENTIFICATION OF EXHIBITS**

13 Q. Is this Panel sponsoring any exhibits?

14 A. Yes. This Panel is sponsoring the following exhibits:

15 1) Exhibit \_\_ (ESNGSEP-1) provides the CVs of the witnesses testifying on this  
16 Panel;

17 2) Exhibit \_\_ (ESNGSEP-2) identifies New York State Electric & Gas  
18 Corporation’s (“NYSEG”) and Rochester Gas and Electric Corporation’s  
19 (“RG&E” and together with NYSEG, the “Companies”) generators and power  
20 purchase agreements;

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- 1           3) Exhibit \_\_ (ESNGSEP-3) is a schedule listing natural gas capacity contract  
2           holdings for the years 2012-2017 based on the expiration dates of the  
3           Companies' existing pipeline and storage contracts;
- 4           4) Exhibit \_\_ (ESNGSEP-4) provides a city gate annual expense forecast for  
5           2015-2016;
- 6           5) Exhibit \_\_ (ESNGSEP-5) provides NYSEG's and RG&E's natural gas market  
7           price estimate;
- 8           6) Exhibit \_\_ (ESNGSEP-6) provides the 5% Daily Balancing Analysis with  
9           Imbalance Trading;
- 10          7) Exhibit \_\_ (ESNGSEP-7) provides the 5% Daily Balancing Analysis without  
11          Imbalance Trading;
- 12          8) Exhibit \_\_ (ESNGSEP-8) is a schedule listing NYSEG's and RG&E's  
13          proposed Natural Gas Marketing Budget;
- 14          9) Exhibit \_\_ (ESNGSEP-9) provides the proposed Natural Gas Conversion  
15          Rebate Budget for NYSEG and RG&E; and
- 16          10) Exhibit \_\_ (ESNGSEP-10) provides an index of the Panel's workpapers. A  
17          copy of the workpapers will be provided to the New York State Department of  
18          Public Service Staff ("Staff").

19                   **III. SUPPLY STRATEGIES/PLANS/POLICIES**

20           **A. Electric Supply**

- 21    Q.    What sources of electric supply do the Companies currently utilize to serve their  
22    retail customers?

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1 A. The Companies' current sources of electric supply are: 1) company-owned  
2 generation; 2) fixed-price and market-priced contractual purchases; and 3) New  
3 York Independent System Operator ("NYISO") purchases.

4 Q. Please describe NYSEG's company-owned generation.

5 A. A listing of NYSEG's company-owned generation is set forth in  
6 Exhibit \_\_ (ESNGSEP-2). The majority of NYSEG-owned generation is  
7 run-of-river hydropower. NYSEG currently leases one small (7 MW) natural  
8 gas-fired generating unit. The operation of NYSEG's natural gas generator is  
9 determined by the NYISO. The NYISO's determination is based upon NYSEG's  
10 dispatch bids for the unit, which is developed using current market prices for  
11 natural gas. The dispatch is determined by the NYISO's market clearing price at  
12 the generator bus. The natural gas generator is generally run as a peaking unit.

13 Q. What percentage of delivery customer load do the NYSEG-owned resources  
14 serve?

15 A. For the Test Year (i.e., the 12 months ended December 31, 2014), NYSEG  
16 resources served approximately 1.6% of delivery customers.

17 Q. Please describe RG&E's company-owned generation.

18 A. A listing of RG&E's company-owned generation is also set forth in  
19 Exhibit \_\_ (ESNGSEP-2). RG&E-owned generation is run-of-river hydropower.

20 Q. What percentage of delivery customer load do the RG&E-owned resources serve?

21 A. For the Test Year, RG&E resources served approximately 1.7% of delivery  
22 customers.



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1 Q. Please describe NYSEG's contractual purchases of electric supply.

2 A. A listing of NYSEG's contractual purchases of electricity supply is included in  
3 Exhibit \_\_ (ESNGSEP-2). As shown on Exhibit \_\_ (ESNGSEP-2), NYSEG's  
4 contractual purchases are a combination of fixed-price and market-priced physical  
5 purchases for energy and capacity from the New York Power Authority  
6 ("NYPA") and various qualifying facilities ("QFs").

7 Q. What are the expiration dates of these bilateral contacts?

8 A. The NYPA agreement is for peaking power and the current contract termination  
9 date is December 31, 2017. The QF expiration dates vary as shown on  
10 Exhibit \_\_ (ESNGSEP-2). Market priced QF contracts with an expiration date of  
11 2015 are generally one-year agreements that are extended each year.

12 Q. Please describe RG&E's contractual purchases of electric supply.

13 A. A listing of RG&E's contractual purchases of electricity supply is included in  
14 Exhibit \_\_ (ESNGSEP-2). As shown on Exhibit \_\_ (ESNGSEP-2), RG&E's  
15 contractual purchases are a combination of fixed-price and market-priced physical  
16 purchases for energy and capacity, the majority of which come from NYPA.

17 Q. What are the expiration dates of these bilateral contracts?

18 A. The NYPA agreement is for firm peaking power and the current contract  
19 termination date is December 31, 2017. The RED-Rochester, LLC QF contract is  
20 currently scheduled to terminate in 2015, but will likely be extended.

21 Q. Do the Companies purchase electric supply from the NYISO?

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1 A. Yes. The Companies meet their remaining physical load requirements, after  
2 accounting for the load supplied by bilateral physical purchases, by making  
3 physical purchases from the NYISO.

4 Q. What happens if the Companies' contractual purchase volumes exceed their actual  
5 load requirements?

6 A. In that situation, the Companies sell into the NYISO day-ahead or real-time  
7 market.

8 Q. Please explain how the Companies utilize their three electric supply options.

9 A. Each of the three electric supply options (company-owned generation, contractual  
10 purchases and NYISO purchases) is utilized differently. The Companies bid their  
11 generators into the NYISO at their applicable dispatch price, which for the  
12 hydroelectric plants is zero. The revenue received for the generator from the  
13 NYISO, minus fuel costs, is allocated to the Companies' delivery customers  
14 through the non-bypassable wires charge ("NBC"). Virtually all of the  
15 Companies' contractual supply is "must take." The value of the capacity and  
16 energy supplied by the Companies' contractual purchases, net of contract costs, is  
17 allocated to the Companies' delivery customers through the NBC. Finally, the  
18 Companies use NYISO purchases or sales to balance the remainder of their  
19 resources and load.

20 Q. Do you plan on changing the name of the electric NBC?

21 A. Yes, we plan to change its name to the "Monthly Adjustment Clause."

22 Q. Why do you plan to make this change?

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1 A. The original purpose of the Transition Charge or NBC was to bridge the transition  
2 from a fully-integrated company to retail choice. That transition has been  
3 completed and the monthly charge/credit is now an ongoing adjustment to  
4 account for items such as company-owned generation, net value of Purchase  
5 Power Agreements (“PPAs”), the NYPA Recharge NY Residential Discount  
6 Program, transmission related costs and revenues, and miscellaneous  
7 Commission-approved credits/charges. The name change accurately reflects the  
8 current purpose of the charge.

9 Q. How do the Companies mitigate market price volatility for customers?

10 A. The Companies’ customers are allocated a load ratio share of company-owned  
11 generation and contractual purchases. For all of the Test Year, only 6.5% of  
12 NYSEG’s residential delivery load and 3.6% of its non-residential delivery load is  
13 hedged by these resources. For all of the Test Year, about 28% of RG&E’s  
14 residential and non-residential delivery load was hedged by RG&E-owned  
15 generation and contractual purchases. However, following the expiration of the  
16 PPA with R.E. Ginna Nuclear Power Plant, LLC (“GNPP”) in June 2014, only  
17 3.3% of RG&E’s residential delivery load and 1.8% of its non-residential delivery  
18 load are hedged by RG&E-owned generation and contractual purchases. The  
19 difference between the residential and non-residential percentages are the  
20 Companies’ NYPA hydro allocation, which is solely for the benefit of residential  
21 customers. The allocation of these fixed price hedges mitigates market price

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1 volatility. In addition to the physical hedges, the Companies also utilize financial  
2 hedges to mitigate market price volatility.

3 Q. How does the company-owned generation hedge customer market risk?

4 A. All customers receive a load ratio share of the revenues created from the sale of  
5 energy and capacity into the NYISO.

6 Q. How does the loss of company-owned generation or expiration of fixed price  
7 contracts impact the Companies' hedges?

8 A. As fixed price contracts expire or generation is shut down or sold, absent taking  
9 other hedge positions, the hedge percentages will decline, all else remaining  
10 equal. However, the Companies do take additional hedges to replace terminated  
11 contracts or generation that no longer operates for the benefit of the Companies'  
12 customers.

13 Q. Will the Companies' contractual purchases continue?

14 A. Generally, yes; however, NYSEG's and RG&E's contractual purchases of NYPA  
15 hydropower are scheduled to terminate at the end of 2017.

16 Q. Do the Companies still purchase energy from facilities that qualify under the  
17 Public Utility Regulatory Policies Act ("PURPA")?

18 A. Yes, however in March 2010, pursuant to section 210(m) of PURPA, FERC  
19 granted NYSEG and RG&E relief from the mandatory purchase obligation for  
20 new contracts with QFs in excess of 20 MW.

21 Q. Do the Companies do any other hedging?

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1 A. Yes, NYSEG and RG&E take additional energy and capacity hedges for  
2 residential and small commercial/industrial variable rate customers (i.e., mass  
3 market or Default Supply Option) to achieve certain energy and capacity hedge  
4 levels. NYSEG's and RG&E's current target is approximately 70% for  
5 residential customers.

6 Q. How does this hedge benefit small commercial/industrial variable rate customers?

7 A. The additional physical or financial hedges that the Companies take to achieve an  
8 approximately 70% hedge level for residential, Company-supplied customers  
9 would be allocated equally by load share between residential and small  
10 commercial/industrial customers. Small commercial/industrial customers are  
11 hedged at a slightly lower level because these customers do not receive the benefit  
12 of NYPA hydropower. Thus, the only difference between residential and small  
13 commercial/industrial customers' hedge level would be the residential customers'  
14 allocated share of NYPA hydropower.

15 Q. Why do the Companies currently hedge 70% of load for these residential  
16 customers instead of some other percentage?

17 A. The 70% level strikes a reasonable balance between mitigating market price  
18 volatility and allowing customers to experience some exposure to market prices.  
19 In consultation with Staff, NYSEG periodically reviews its hedge percentage to  
20 ensure it mitigates current market volatility. The impact of hedging is reported in  
21 quarterly coefficient of variation filings submitted to Staff, as required by the  
22 Commission's February 26, 2008 Order Establishing Electric Supply Portfolio

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1 Standard, Goals, and Reporting Requirements in Case 06-M-1017.

2 Q. Please explain the importance of duration and timing for electricity supply  
3 hedges.

4 A. No entity, including NYSEG and RG&E, can accurately predict electricity supply  
5 market prices. A structured program that layers in hedges over time smoothes out  
6 the impact of price volatility. Hedging too far into the future would expose the  
7 Companies' customers to the risk of customer migration. Specifically, if a large  
8 portion of customers switch to an energy service company ("ESCO"), the  
9 remaining customers would bear the cost of all these hedges in the event of  
10 unexpected migration.

11 Q. Can you provide more detail on the hedging program for residential and small  
12 commercial/industrial customers?

13 A. Yes. The Companies hedge both energy and capacity roughly 24 months into the  
14 future. NYSEG and RG&E hedge approximately 1/8 of their open position each  
15 quarter (subject to standard market products) such that, coupled with the  
16 Companies' remaining resources, the desired hedge percentages are achieved  
17 prior to the start of the period for which the hedges are applicable.

18 Q. What do you mean by the phrase "standard market products"?

19 A. Financial energy hedges generally trade in 50 MW blocks. In addition, certain  
20 months trade together: winter (January and February); spring (March and April);  
21 summer (July and August); and fourth quarter (October – December). May, June  
22 and September trade individually. Rather than pay a premium for a non-standard

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1 product, NYSEG and RG&E generally use standard trading blocks to hedge  
2 commodity purchases taken on behalf of variable price residential customers.

3 Q. Are capacity (“UCAP”) hedging practices the same as energy?

4 A. Generally yes, with the exception that UCAP hedges are taken on a calendar year  
5 basis so that hedges are taken quarterly for two years in advance of the calendar  
6 year being hedged.

7 Q. Do NYSEG and RG&E have any other agreements as part of their portfolio?

8 A. Yes, NYSEG and RG&E each have a revenue sharing agreement (“RSA”) with  
9 Nine Mile Point 2 (“NM2”).

10 Q. Please describe the RSA.

11 A. The RSA was an agreement entered into by NYSEG and RG&E at the time of the  
12 sale of NM2 in 2001. The RSA started in 2011 following the termination of the  
13 PPA the Companies had with NM2. Under the RSA, NYSEG and RG&E receive  
14 a share of NM2 revenues in excess of the contractual floor.

15 Q. How are the revenues tracked?

16 A. The revenues are tracked on a quarterly basis and any positive amounts are  
17 credited to the Companies after making up for prior period negative amounts.

18 Q. Please describe the NYSEG and RG&E Reliability Support Service Agreements  
19 (“RSSA”).

20 A. NYSEG has an RSSA with Cayuga Generating Station LLC (“Cayuga”) and  
21 RG&E executed an RSSA with GNPP.

22 Q. Why did NYSEG enter into an RSSA with Cayuga?

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1 A. NYSEG entered into an RSSA with Cayuga as a result of Cayuga’s filing in July  
2 2012 of a notice of its proposed “protective lay-up” or mothballing of the Cayuga  
3 Facility effective January 16, 2013. That voluntary election to mothball or retire  
4 the Cayuga Facility by its owners triggered reliability concerns for the electric  
5 network and for customers. As the entity responsible for local reliability, NYSEG  
6 conducted an analysis of the proposed mothballing and identified adverse  
7 reliability impacts that could occur if the mothballing were effectuated. NYSEG  
8 also identified transmission system reinforcements as an alternative to remedy  
9 reliability impacts arising from a mothballing of the Cayuga Facility, but  
10 estimated that the reinforcements would not be completed until 2017, well after  
11 the proposed mothball date. As a result, the Cayuga Facility had to remain  
12 available for commitment in order to maintain system reliability on an interim  
13 basis. NYSEG negotiated the RSSA with Cayuga to ensure the continued  
14 maintenance and availability of the Cayuga Facility to avoid adverse impacts on  
15 system reliability resulting from the proposed mothballing. An initial RSSA term  
16 sheet was filed with the Commission on October 29, 2012 and approved on  
17 December 17, 2012. A second RSSA was filed on November 4, 2013 and  
18 approved on January 16, 2014.

19 Q. What is the term of NYSEG’s RSSA with Cayuga?

20 A. The RSSA ends in June 2017 and NYSEG has an option to extend the agreement  
21 for six months.

22 Q. What is the payment structure under the Cayuga RSSA?



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1 A. NYSEG pays Cayuga fixed monthly payments net of capacity and certain energy  
2 revenues. NYSEG also pays Cayuga for capital costs required to enable the  
3 facility to provide continued reliability services.

4 Q. How does NYSEG recover the costs paid to Cayuga under the RSSA?

5 A. NYSEG recovers the costs from customers through a surcharge. This rate  
6 mechanism allows NYSEG complete and immediate cost recovery of Cayuga  
7 payments. As a result, no further consideration is required in this rate proceeding.

8 Q. Please describe the status of the Ginna Nuclear Power Plant (“Ginna Facility”).

9 A. Due to a determination that expected revenues from the Ginna Facility would not  
10 be sufficient to cover its costs of continued operation, on July 11, 2014, GNPP  
11 filed a petition requesting that the Commission initiate a proceeding to examine a  
12 proposal for the Facility’s continued operation. Pursuant to the Commission’s  
13 November 14, 2014 Order Directing Negotiation of a Reliability Support Service  
14 Agreement and Making Related Findings in Case 14-E-0270, RG&E filed a  
15 petition requesting that the Commission accept the RSSA and approve full and  
16 immediate cost recovery for RG&E through a rate surcharge mechanism.  
17 RG&E’s petition is pending before the Commission and is being considered in  
18 Case 14-E-0270.

19 **B. Gas Supply**

20 Q. What rate case regulatory requirements apply to natural gas purchasing practices?

21 A. As part of their rate cases, NYSEG and RG&E are required under  
22 16 NYCRR Section 61.3 (d)(6) to establish that their natural gas procurement

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1 policies and practices are reasonable.

2 Q. What are NYSEG's and RG&E's goals and objectives in the procurement of  
3 natural gas?

4 A. The Companies procure natural gas to promote the best interests of customers in  
5 obtaining the maximum projected value for dollars spent, consistent with  
6 maintaining supply capability, system reliability, and mitigation of customer risk.

7 Q. Please describe the plans and processes used to achieve these natural gas  
8 procurement objectives.

9 A. The natural gas procurement program for the Companies is a comprehensive  
10 process involving many different components of analysis, including analyses with  
11 respect to customer demand, price volatility, contract strategy, day-to-day  
12 operations, and billing activities. NYSEG and RG&E develop detailed short-term  
13 and long-term supply plans based on an assessment of forecast requirements and  
14 customer demand that reflect historical and projected future demand, as well as  
15 changes in customer migration to retail marketers. The Companies ensure that  
16 they have sufficient supply to meet design day and winter capability requirements.  
17 These plans enable the Companies to analyze and determine the need for  
18 transportation and storage assets to meet system reliability requirements,  
19 including certain assets to support retail access load migration  
20 (e.g., large-customer load balancing and small-customer reliability and balancing  
21 requirements).

22 Q. How do you address market volatility?

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1 A. NYSEG and RG&E engage in hedging transactions to reduce the exposure of  
2 customers to changes in natural gas prices.

3 Q. Please describe the contractual process NYSEG and RG&E use in supply  
4 procurement.

5 A. Our purchasing process encompasses significant contracting activities to evaluate  
6 and select natural gas suppliers and pipeline services, as well as to negotiate,  
7 execute, and administer contractual agreements. Such agreements cover natural  
8 gas supply, transportation and storage capacity, and portfolio optimization  
9 activities.

10 Q. How do you manage the process to maximize its effectiveness?

11 A. While developing and maintaining long-term plans, the Companies continually  
12 monitor and manage their short-term, day-to-day operations throughout the year  
13 to take advantage of opportunities to maintain reliability, including application of  
14 recommendations from the Companies' last management audit. The Companies  
15 prepare daily short-term forecasts and schedules; adjust their nominations and  
16 delivery schedules on the interstate and intrastate natural gas pipelines that serve  
17 our city gates, incorporating retail access program requirements; and work to  
18 identify portfolio optimization opportunities (e.g., capacity releases, third-party  
19 sales, and volatility mitigation transactions).

20 Q. Are there any other components in NYSEG's and RG&E's natural gas  
21 procurement process?

22 A. Yes. After transactions are implemented, energy billing personnel verify supplier

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1 and pipeline invoices for payment and generate reports in accordance with all  
2 applicable requirements.

3 Q. Please describe NYSEG’s existing natural gas supply and capacity contracts.

4 A. NYSEG’s natural gas supply and capacity contracts are designed to serve the  
5 Company’s city gates across its noncontiguous service territory. These city gates  
6 are served by Dominion Transmission Inc.’s (“DTI”) pipeline system, Empire  
7 State Pipeline (“Empire”), Iroquois Gas Transmission System (“IGTS”),  
8 Tennessee Gas Pipeline (“TGP”), Columbia Gas Transmission, North Country  
9 Pipeline, and Algonquin Gas Transmission, as well as other interconnects behind  
10 Local Distribution Companies (“LDCs”). Additionally, NYSEG holds capacity  
11 on many other pipelines upstream of these interconnected systems.

12 Q. Please describe RG&E’s existing natural gas supply and capacity contracts.

13 A. RG&E’s natural gas supply and capacity contracts are designed to serve the  
14 Company’s two main city gates at Caledonia and Mendon. The Caledonia city  
15 gate is served by DTI’s pipeline system including pipelines upstream of DTI. The  
16 Mendon city gate is similarly served by the Empire system including pipelines  
17 upstream of Empire.

18 Q. Please explain how NYSEG and RG&E source their supply for retail customers.

19 A. The Companies’ portfolio of natural gas supply and capacity contracts is designed  
20 to serve the city gates that we just referenced. Given the Companies’ portfolio,  
21 they are able to acquire natural gas from various sources that originate in the Gulf  
22 of Mexico, Appalachia, mid-continent and Canada. Based on system

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1 requirements and the availability of supply, the Companies purchase on a  
2 best-cost basis in order to optimize the cost effectiveness of purchases on behalf  
3 of retail customers. The Companies not only have geographic supply diversity in  
4 their purchasing programs, but maintain price diversity by virtue of the different  
5 types of pricing mechanisms that apply to their supply portfolios  
6 (e.g., first-of-month index, daily index, fixed price, New York Mercantile  
7 Exchange (“NYMEX”) futures, and storage weighted average cost of gas).

8 Q. Please describe NYSEG’s and RG&E’s portfolio of capacity and storage assets.

9 A. Exhibit \_\_ (ESNGSEP-3) provides a listing of capacity and storage assets and  
10 their expiration dates.

11 Q. What are the key factors that influence NYSEG’s and RG&E’s natural gas  
12 purchasing practices today?

13 A. There are three key factors: 1) the magnitude and variability of NYSEG’s and  
14 RG&E’s load; 2) optimization of underground storage use; and 3) mitigation of  
15 wholesale natural gas price volatility.

16 Q. In what way does the magnitude and variability of load affect the Companies’  
17 natural gas purchasing practices?

18 A. The Companies’ load consists primarily of high-priority, low-load factor end  
19 users. These considerations are balanced in a manner that ensures supply  
20 reliability while minimizing natural gas costs to customers.

21 Q. How is underground storage used as a component of NYSEG’s and RG&E’s  
22 supply portfolio?

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1 A. Natural gas storage is used by the Companies for three primary purposes: 1) to  
2 satisfy peak winter demand; 2) to guarantee available supply for short-term peaks  
3 (peaks ranging from a few hours to a few days); and 3) to manage daily  
4 fluctuations resulting from weather and forecasting variations. To ensure that  
5 adequate supplies are available to meet seasonal requirements through the heating  
6 season, the Companies inject substantial amounts of natural gas into storage  
7 reservoirs from April through October. During these non-heating season months,  
8 NYSEG's and RG&E's firm natural gas demand decreases as temperatures rise.  
9 Thus, storage enables greater system efficiency by allowing level production and  
10 transmission flow throughout the year. Because of this leveling effect, storage  
11 decreases the amount of new transmission capacity needed to meet the demands  
12 of the marketplace. During the heating season, natural gas held in storage  
13 supplements supply and pipeline capacity from the producing regions to meet  
14 customer requirements. Because natural gas placed in storage is purchased during  
15 the summer months, when prices are typically lower than flowing supplies that  
16 would otherwise be purchased during the winter, storage can also provide a  
17 seasonal price advantage for customers.

18 Q. How do NYSEG and RG&E mitigate retail price volatility?

19 A. The major element of the Companies' program to mitigate price volatility for  
20 customers involves hedging a portion of the projected natural gas requirements.  
21 Such requirements are accomplished, in part, through the natural price hedge that  
22 is afforded by filling storage during the summer months and withdrawing in the

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1 winter season. In addition, the Companies enter into forward financial  
2 transactions to further manage the price of natural gas for customers. These  
3 strategies and associated transactions are developed and reviewed on an ongoing  
4 basis.

5 Q. Please discuss NYSEG's and RG&E's intervention and participation in pipeline  
6 rate cases or other proceedings before the regulatory agencies that regulate the  
7 natural gas industry.

8 A. NYSEG and RG&E intervene in natural gas pipeline rate cases, certificate and  
9 policy proceedings, and Purchased Gas Adjustment filings both at the federal and  
10 state levels to make sure that the best interests of customers are represented in  
11 these important regulatory matters. In addition, the Companies participate in  
12 similar proceedings before the National Energy Board, which is roughly the  
13 Canadian equivalent of the FERC.

14 **IV. MARCELLUS SHALE RELATED IMPACTS**

15 Q. Has the emergence of prolific supply from Devonian Shale sources provided an  
16 opportunity for the Companies to pursue changes to their portfolio of assets?

17 A. Yes, of particular interest is the ongoing activity along the  
18 New York - Pennsylvania border in the northern Pennsylvania counties of  
19 Susquehanna, Tioga, and Bradford, just south of the NYSEG distribution systems  
20 in the Southern Tier of New York. The dramatic increase in Marcellus Shale  
21 supply has presented an attractive opportunity to improve the reliability of the

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1 portfolio and reduce costs to customers by restructuring the Companies' portfolio  
2 of assets.

3 Q. What changes are the Companies making to their portfolio of assets?

4 A. NYSEG has contracted with Empire for the equivalent amount that was  
5 de-contracted – 14,816 Dths/day of TGP capacity. This change was effective on  
6 November 1, 2014. This contracted capacity on Empire will initially be sourced  
7 from Chippawa and then converted to Corning on November 1, 2015, upon  
8 completion of the Tuscarora pipeline.

9 RG&E has engaged Empire regarding access to Marcellus Shale supply.  
10 The discussions led to the concept of the construction of an approximately 18  
11 mile-long pipeline from Corning, New York to Tuscarora, New York that would  
12 connect the Empire system with the National Fuel Supply Corp. ("NFS") system.  
13 NFS and Empire are affiliates owned by National Fuel Gas Company. The  
14 concept evolved as a complement of Empire services that will include no-notice  
15 storage service and address all of the portfolio concerns previously discussed.  
16 RG&E expects that the restructured Empire services will be available on  
17 November 1, 2015.

18 Q. What are the customer benefits from this restructuring?

19 A. While the shift from TGP to Empire does not change the delivered capabilities to  
20 the system, the change is estimated to reduce the overall cost of gas by  
21 approximately \$1.3 million annually.

22



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**V. NATURAL GAS EXPENSE FORECAST**

1  
2 Q. Have the Companies prepared a natural gas expense forecast that covers  
3 quantities as well as costs?

4 A. Yes. Exhibit \_\_ (ESNGSEP-4) provides a city gate annual expense forecast for  
5 2015 and 2016. The forecast includes projected load requirements together with  
6 natural gas commodity costs and total pipeline costs (i.e., transportation and  
7 storage costs).

8 Q. Please explain the natural gas market price estimate that was used to prepare the  
9 expense forecast.

10 A. The natural gas market price estimate is provided in Exhibit \_\_ (ESNGSEP-5). It  
11 is based on NYMEX futures prices published on March 30, 2015. Production  
12 area prices and market area prices are developed from data contained in that  
13 exhibit. As a result of changing market conditions and high natural gas price  
14 volatility, the estimate is subject to change.

15 Q. Do NYSEG and RG&E propose to continue the existing Gas Supply Charge  
16 (“GSC”) to collect the cost of gas purchased for firm sales customers?

17 A. Yes.

**V. GAS COST INCENTIVE MECHANISM**

18  
19 Q. Please describe the Gas Cost Incentive Mechanism (“GCIM”) in the Companies’  
20 existing rate plan, as provided in Appendix V of the Joint Proposal adopted by the  
21 Commission’s September 21, 2010 Order Establishing Rate Plan in  
22 Cases 09-G-0715 et al. (“2010 Rate Order”).

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1 A. The GCIM relates to portfolio optimization activities conducted by the  
2 Companies on a stand-alone basis. Savings under the GCIM are to be shared as  
3 follows:

- 4 • 85% / 15% sharing between customers and shareholders for NYSEG/RG&E  
5 non-migration capacity releases;
- 6 • 85% / 15% sharing between customers and shareholders for NYSEG/RG&E  
7 off-system sales net of gas costs and related optimization transactions; and
- 8 • 80% / 20% sharing between customers and shareholders for local production.

9 Q. Do you propose to extend the GCIM?

10 A. Yes. The optimization activities under the GCIM provide benefits to customers  
11 and proper incentives to the Companies and, thus, should be extended.

12 **VI. HEATER FUEL COST RECOVERY**

13 Q. Do you propose any changes regarding the recovery of the cost of gas used to  
14 pre-heat city gate natural gas throughput that had previously been accounted for  
15 as Operations & Maintenance (“O&M”) expense?

16 A. Yes. NYSEG and RG&E propose that all heater fuel costs be treated as part of  
17 overall purchased gas costs for heater fuel consumed on the LDC side of the  
18 pipeline meter. This would make cost recovery consistent with the recovery of  
19 heater costs at one of RG&E’s city gates (i.e., the Mendon gate station).

20 Q. Where are these heater fuel costs currently recorded?

21 A. With the exception of RG&E’s Mendon gate station on Empire, heater fuel costs  
22 incurred on the LDC side of the pipeline meter are currently recorded as a debit to

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1 FERC O&M Account 875.0 – Measuring & Regulator Station General expense  
2 with a corresponding credit to FERC Account 812.0 – Purchased Gas expense.

3 We propose that the cost stay in Purchased Gas and be recovered through the  
4 GSC and transportation surcharge.

5 Q. When did RG&E begin to recover heater fuel costs for the Mendon gate station  
6 through a GSC?

7 A. In the Companies’ previous rate case, RG&E proposed to collect Mendon heater  
8 fuel through the GSC and transportation surcharge. The proposal was adopted by  
9 the Commission and implemented in 2010. The changes proposed by NYSEG  
10 and RG&E for any existing and future points where heater fuel is consumed on  
11 the LDC side of the meter would be accounted for and collected consistent with  
12 the method implemented for the Mendon heater fuel.

13 Q. For calendar year 2015, what is NYSEG’s forecasted heater fuel cost for the  
14 existing system?

15 A. For calendar year 2015, the fuel costs for the gate station heaters that are on the  
16 LDC side of the gate station are forecasted to be approximately \$275,000.

17 **VII. GAS RETAIL ACCESS OPERATIONS**

18 Q. Have NYSEG and RG&E implemented changes to their retail access programs as  
19 a result of the 2010 Rate Order?

20 A. Yes. As part of Appendix V of the Joint Proposal adopted in the 2010 Rate  
21 Order, NYSEG and RG&E initiated a collaborative with interested parties to  
22 examine a number of issues including further consolidation of NYSEG’s Gas

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1 Supply Area (“GSA”) charges, ESCO auto-balancing on the RG&E and NYSEG  
2 systems, upstream pipeline cost overrun issues, and implementation of a weighted  
3 average cost of capacity approach to capacity release pricing.

4 Q. What was the outcome of the collaborative?

5 A. NYSEG completed the consolidation of its gas supply areas into a single GSA.  
6 Additionally, NYSEG completed the phasing-in of a pricing mechanism for the  
7 purpose of capacity release based on the weighted average cost of capacity.  
8 NYSEG and RG&E also phased-in the consolidation of the transportation  
9 balancing charges. Lastly, NYSEG and RG&E made the necessary tariff changes  
10 to address the assignment of upstream pipeline cost overruns.

11 Q. Have the Companies recently implemented upgrades to their SmarTRAC  
12 software?

13 A. Yes. Implementation of a new SmarTRAC system (also known as the Gas  
14 Tracking System or “GTS”) was deployed in October, 2014 for implementation  
15 beginning in November 2014. Additionally, the new GTS was designed to  
16 address the ESCO auto-balancing function.

17 Q. What is SmarTRAC?

18 A. SmarTRAC was the Companies’ former web-based Electronic Bulletin Board,  
19 which was used to allow ESCOs to nominate natural gas to the LDC retail access  
20 program. This website also provided ESCOs with their customer and customer  
21 pool usage, load forecasts, imbalances, cash-out amounts, and other critical  
22 information. The software performed a series of complex reconciliations

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1           designed to keep all market participants whole from a gas cost perspective.

2   Q.    Please explain the new daily balancing provisions as approved in Case 14-G-0131  
3           and implemented in the new GTS.

4   A.    As approved, the new GTS implemented the No Harm, No Foul philosophy, a  
5           10% deadband, and cashing imbalances to zero dekatherms, daily.

6   Q.    With this design, do daily metered customers/ESCO Pools have the ability to  
7           perform monthly imbalance trades?

8   A.    No. With imbalances cashed out to zero dekatherms daily, there is no rolling  
9           imbalance and therefore no end of month imbalance trading.

10   Q.    Please identify how many imbalance trading transactions were completed by  
11           ESCOs since 2006.

12   A.    Since January 1, 2006, there have been a total of 10 imbalance trading  
13           transactions for NYSEG and zero imbalance trading transactions for RG&E.  
14           There was not a single imbalance trading transaction completed during the  
15           five-year period of 2007 through 2011, and only one imbalance trade in 2014.

16   Q.    As it relates to the No Harm, No Foul provision discussed in Case 14-G-0131,  
17           does the new GTS incorporate this functionality to minimize the potential for  
18           daily metered customers/ESCO Pools to incur balancing costs?

19   A.    Yes. As part of the business construct for the newly implemented auto-balancing  
20           feature, the Companies not only desired to more closely align the imbalance costs  
21           with the actual gas costs on the day that the imbalance occurred, but also sought  
22           to implement the No Harm, No Foul provision.

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1 Q. Please explain the No Harm, No Foul provision implemented in the new GTS.

2 A. The No Harm, No Foul provision allows for a daily metered customer/ESCO Pool  
3 that exceeded the 10% deadband to continue to be cashed-out at the Tier 1 rate if  
4 the total pool area imbalance does not exceed the 10% deadband.

5 Q. Have the Companies analyzed the costs and benefits associated with reducing the  
6 10% deadband for daily metered customers to 5%, as recommended in  
7 Case 14-G-0131?

8 A. Yes, we have.

9 Q. Please explain your findings.

10 A. It should be noted that the new GTS was designed to cash-out daily metered  
11 customers as provided in the Commission-approved tariff sheets. Specifically,  
12 each customer or pool is cashed out to zero dekatherms on a daily basis (no  
13 rolling daily imbalance, no monthly imbalance trading). This is the current state  
14 of the GTS. As recommended, the Companies analyzed and compared the  
15 results of:

16 1) Changing the deadband from 10% to 5%, which would result in the following  
17 tier changes:

<b>Tier</b>	<b>With Existing 10% Deadband</b>	<b>With 5% Deadband</b>
Tier 1	0 – 10%	0 – 5%
Tier 2	10 – 15%	5 – 15%
Tier 3	15 – 20%	15 – 20%
Tier 4	> 20%	> 20%

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1           2) Allowing for a daily rolling imbalance that would be available for monthly  
2           imbalance trading.

3                   The analysis was conducted to determine the total cash-out charges for  
4           each Pipeline Pool as a result of normal, non-operational flow order-related  
5           activities over the 13-month period from February 1, 2014 through  
6           February 28, 2015. The results, as provided in Exhibit \_\_ (ESNGSEP-6),  
7           illustrate mixed results. While the reduction to a 5% deadband would provide an  
8           overall reduction in daily balancing and cash-out charges for the DTI and IGTS  
9           Pipeline pools, the results show overall increased costs for the Algonquin,  
10          Columbia and Tennessee Pools.

11 Q.          Since the number of imbalance trades has been effectively non-existent, did the  
12          Companies take the current state of the GTS and analyze the results of simply  
13          changing the deadband to 5%, but continue to cash-out to zero dekatherms on a  
14          daily basis?

15 A.          Yes. The Companies took the existing, implemented process and reduced the  
16          deadband to 5% with the following tiers:

<b>Tier</b>	<b>With 5% Deadband</b>
Tier 1	0 – 5%
Tier 2	5 – 15%
Tier 3	15 – 20%
Tier 4	> 20%

17          The results are provided in Exhibit \_\_ (ESNGSEP-7).

18 Q.          Do the Companies have a recommended solution?

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1 A. Yes. Given the results of the various analyses, the Companies make the following  
2 recommended changes:

- 3 1) Reduce the deadband to 5%;
- 4 2) Continue the daily cash-out of volumes to zero dekatherms to more closely  
5 align the imbalance costs with the actual gas costs on the day that the  
6 imbalance occurred; and
- 7 3) Not re-introduce Imbalance Trading functionality. As previously described,  
8 the former imbalance trading functionality was effectively not used (ten  
9 imbalance trading transactions over a nine-year period).

10 Q. What are the additional costs associated with modifying the current GTS  
11 functionality to implement a 5% deadband, allowing for the monthly  
12 accumulation of daily imbalances and incorporating an imbalance trading feature?

13 A. The GTS, as presently operating, would need to be recoded to change the daily  
14 metered cash-out tolerances to allow for monthly accumulations of rollover  
15 volumes and to add trading of volumes at the end of the month, as well as to  
16 develop the end of month cash-out volumes for those volumes not traded. The  
17 vendor-related cost for these changes is \$110,500. It will take approximately six  
18 months to implement the GTS modifications if the Commission directs the  
19 Companies to implement such changes.

20 Q. What are the additional costs associated with modifying the existing GTS to  
21 implement the Companies' recommended solution?

22 A. The GTS, as presently operating, would need to be recoded to change the daily



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1 metered cash-out tolerances. The vendor-related cost for this change is \$54,500.

2 Q. Are the Companies seeking recoveries for these enhancements?

3 A. Yes, the Companies are seeking recovery for any vendor-related cost for any  
4 agreed-upon change to the existing GTS. These costs would be split equally  
5 between NYSEG and RG&E.

6 **VIII. COMPRESSED NATURAL GAS**

7 Q. Is NYSEG in the process of implementing compressed natural gas (“CNG”) as a  
8 source of supply?

9 A. Yes. NYSEG currently is unable to grant requests for new or additional natural  
10 gas service in the Mechanicville service territory. As part of the effort to do so, in  
11 January 2014, NYSEG petitioned the Commission for a declaratory ruling  
12 regarding the use of CNG in the Mechanicville service territory (see  
13 Case 14-G-0019). In accordance with the Commission’s July 1, 2014 Declaratory  
14 Ruling Concerning Regulation of a Proposed Compressed Natural Gas Supply  
15 Station and Related Facilities in Case 14-G-0019, NYSEG is planning to have  
16 operational a CNG peaking solution for some of the Mechanicville service  
17 territory beginning with the 2015-16 winter season and will likely follow up with  
18 a second phase for the remainder of the Mechanicville service territory in 2018.

19 Q. What is the contract status for the CNG facilities and supply arrangement for the  
20 Mechanicville service territory?

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1 A. NYSEG and Xpress Natural Gas (“XNG”) have completed negotiations and have  
2 executed an arrangement for the facilities and CNG supplies. The agreement  
3 between NYSEG and XNG was filed with the Commission on May 8, 2015.

4 Q. How will NYSEG recover the cost associated with CNG service to the  
5 Mechanicville area?

6 A. As ordered in Case 14-G-0019, NYSEG is authorized to recover the CNG supply  
7 costs through its GSC. All remaining facility costs would be subject to review  
8 and normal rate treatment.

9 Q. Will customers supplemented with CNG have the option to choose qualified  
10 ESCOs for their gas supply?

11 A. It is the Companies’ intent to allow customers to choose a qualified ESCO to  
12 serve their gas supply needs.

13 **IX. GAS EXPANSION PROGRAMS**

14 **A. Overview of the Commission’s Generic Gas Expansion Proceeding**  
15 **(12-G-0297)**  
16

17 Q. What efforts has the Commission initiated with respect to natural gas expansion?

18 A. On November 30, 2012, the Commission initiated a proceeding (Case 12-G-0297)  
19 to examine the Commission’s policies regarding the expansion of natural gas  
20 service in New York State. On the same day, the Commission issued a Notice of  
21 Technical Conference and Notice Soliciting Comments (“November Notice”).

22 The November Notice invited interested parties to submit comments on 21 issues.

23 Q. Have the Companies participated in Case 12-G-0297?

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1 A. Yes. The Companies participated in a technical conference on January 9, 2013 by  
2 presenting their views on gas expansion and at a working group meeting on  
3 January 30, 2013. NYSEG also participated in a technical conference on CNG  
4 and Liquefied Natural Gas on May 22, 2013.

5 Q. Have NYSEG and RG&E also submitted comments in that proceeding?

6 A. Yes. On March 12, 2013, NYSEG and RG&E submitted a number of suggestions  
7 and recommendations that would enhance the expansion of the natural gas system  
8 within their service territories. In addition, on July 8, 2013, the Companies jointly  
9 filed comments on Staff’s Proposed Reporting Requirements Related to Inquiries  
10 and Requests by Prospective Natural Gas Customers. Also, on July 31, 2013, the  
11 Companies submitted responses to various information requests regarding  
12 NYSEG’s and RG&E’s administration of their respective Contribution in Aid of  
13 Construction tariff provisions. In addition, on August 5, 2013, the Companies  
14 submitted comments in response to a Notice of Proposed Rule Making for  
15 Provision by Utilities of Natural Gas Main and Service Lines published in the  
16 New York State Register on June 19, 2013 (“June Notice”). The June Notice  
17 solicited comments for the Commission’s consideration on whether to adopt,  
18 modify, or reject, in whole or in part, a proposal by Staff to clarify  
19 16 NYCRR Section 230.2, which includes what is often referred to as the “100  
20 foot rule.” The Companies also responded to a series of questions related to their  
21 proposal that was a part of the June Notice.

22 Q. What are the main points or recommendations from those filings?

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1 A. The main points/recommendations from those filings include: 1) re-examining  
2 the use of a five-year development period for new franchises in favor of a longer  
3 ten-year development period; 2) providing broader authorization when granting a  
4 utility's request to exercise or amend a franchise; 3) modifying the customer  
5 surcharge process; 4) differentiating the levels of environmental review based  
6 upon proposed length, location, and proposed construction technique for gas  
7 expansion projects; and 5) adopting Staff's proposal to expand the 100 foot rule.

8 Q. Have NYSEG and RG&E derived any benefit from their active participation in  
9 this proceeding?

10 A. Yes. The Companies have been able to review the comments and presentations of  
11 other natural gas utilities and industry representatives, which we took into  
12 consideration when developing the programs proposed in these cases.

13 Q. Have NYSEG and RG&E taken other utility gas expansion programs into  
14 consideration in developing their programs?

15 A. Yes. The Companies have closely monitored other utility gas expansion  
16 programs and considered such programs when developing the natural gas  
17 expansion plan proposed in this testimony.

18 **B. Natural Gas Marketing Activities**

19 Q. Could the Panel please explain what types of marketing activities NYSEG and  
20 RG&E are targeting?

21 A. NYSEG and RG&E will have targeted natural gas marketing programs for the  
22 following areas:

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- 1           • Expanding growth on the existing natural gas system, which includes
- 2           acquiring new customers that currently do not utilize natural gas in their home
- 3           or business (approximately 18,300 sandwich customers at NYSEG and 9,300
- 4           at RG&E) and current customers that do not utilize natural gas for space
- 5           heating;
- 6           • Natural gas main extensions; and
- 7           • New natural gas franchises.

8 Q.   How do the Companies plan to market to these target areas?

9 A.   The Companies plan to develop a branded marketing campaign with a common  
10    theme along with specific campaigns for the target areas described above.  
11    Depending on the target area, the marketing approach may vary. Marketing  
12    initiatives will include direct mail campaigns to potential sandwich, non-heat and  
13    new main extension/franchise customers. Town hall meetings and trade shows  
14    will be utilized where beneficial for specific projects or franchise expansions.  
15    One-on-one contact with potential customers is also an important marketing  
16    initiative. Website enhancements will be developed and implemented in  
17    conjunction with the branded marketing campaign to better educate existing and  
18    potential customers on the benefits and cost savings associated with using natural  
19    gas, gas safety, how to obtain service, available rebates, financial assistance that  
20    might be available from other sources such as the New York State Energy  
21    Research Development Authority (“NYSERDA”), and other pertinent  
22    information. Information on available rebates and financing options will be

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1 included in customer communications. The Companies also plan to evaluate the  
2 expanded use of their website for customer interest surveys and project-specific  
3 portals to allow communities to remain current on large expansion projects. The  
4 Companies also recognize the value of trade allies and will incorporate  
5 communication with trade allies into the marketing campaigns as well.

6 Q. What types of data will NYSEG and RG&E track and how will it be used?

7 A. Databases are or will be developed to track a variety of data related to natural gas  
8 expansion efforts, including, but not limited to the following:

- 9 • Sandwich customers;
- 10 • Large customer projects (conversion and new);
- 11 • Active, planned and potential main extension, franchise and pilot projects  
12 (e.g., number of interested and prospective customers, project footage, and  
13 construction costs);
- 14 • Survey data related to main extension, franchise and pilot projects which  
15 includes customer contact information, interest in natural gas, current fuel and  
16 cost, equipment interested in converting, range of additional surcharge the  
17 potential customer is willing to pay, etc.; and
- 18 • Rebate programs.

19 This data will allow NYSEG and RG&E to develop anticipated costs for  
20 customer connections related to expansion projects. These databases will  
21 facilitate the tracking of project metrics, such as penetration and conversion rates,  
22 surcharges, rebate effectiveness, etc. The databases will also allow the

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1 Companies to access current data to evaluate potential program and strategy  
2 changes, changes in rules related to main extensions and franchise expansion, and  
3 the status and results of active and completed expansion projects.

4 Q. Has natural gas growth been factored into the delivery and revenue forecasts?

5 A. Yes. Incremental natural gas growth has been addressed by the Deliveries and  
6 Revenue / Revenue Decoupling Mechanism Panel.

7 Q. What do NYSEG and RG&E expect these marketing initiatives to cost?

8 A. The marketing budget requirements are \$165,093 for NYSEG and \$51,623 for  
9 RG&E as shown in Exhibit \_\_ (ESNGSEP-8).

10 Q. How do NYSEG and RG&E plan to recover costs associated with these marketing  
11 initiatives?

12 A. The Companies propose including the marketing initiative costs in base rates.

13 **C. Natural Gas Expansion**

14 Q. Have NYSEG and RG&E experienced any challenges related to the expansion of  
15 natural gas service?

16 A. Yes. The current rules and regulations that utilities must follow to extend natural  
17 gas service are complex and confusing for customers to understand, significantly  
18 increase the time required to develop projects, and are administratively  
19 burdensome for utilities.

20 Q. Considering these challenges, will the Companies be implementing any pilot  
21 programs to test and evaluate the effectiveness of other alternatives to natural gas  
22 expansion?

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1 A. Yes. NYSEG will be implementing a Neighborhood Expansion Pilot Program  
2 and a Community Expansion Pilot Program in 2015 and RG&E is considering  
3 implementing similar Neighborhood and Community Expansion Pilot Programs.  
4 The Companies are also proposing a Community Development Fund Pilot  
5 Program.

6 Q. How do these pilot programs address the challenges associated with natural gas  
7 expansion?

8 A. The approaches used in the Neighborhood and Community Expansion Pilot  
9 Programs result in simplified processes that are much easier for customers to  
10 understand and significantly speed up the time involved in developing a project.  
11 They also provide price certainty to customers from a surcharge perspective. The  
12 administrative burden for the utility can be reduced, depending on the pilot, with  
13 respect to the need for surcharge agreements, collection of upfront contributions,  
14 assessment of monthly surcharges, and recalculation/adjustment of surcharges  
15 over the ten-year surcharge period as additional customers connect.

16 Q. How will the results of the pilot programs be used?

17 A. The results of the pilot programs will be evaluated for their effectiveness in  
18 expanding natural gas service. Based on the results, the Companies may refine  
19 the marketing initiatives and customer communication strategies, recommend  
20 updates to future rebate programs, and recommend tariff changes that would  
21 facilitate the expansion of natural gas service.

22 Q. How will the pilot program costs be recovered?



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1 A. The Companies propose to include costs for these programs in base rates.

2 Q. Would the Companies consider other mechanisms to support gas expansion?

3 A. Yes. The Companies would consider as part of a multi-year rate plan the  
4 implementation of a rate mechanism to more closely align the expenditures and  
5 recovery of the capitalized costs of utility infrastructure related to expansion  
6 projects.

7 Q. Are NYSEG and RG&E proposing changes to their current tariffs which would  
8 support natural gas expansion?

9 A. Yes. As outlined in the Revenue Allocation, Rate Design, Economic  
10 Development, and Tariff Panel testimony, the Companies are proposing to align  
11 tariff provisions related to the installation of natural gas mains and services,  
12 taking into consideration the impact these changes have on supporting natural gas  
13 expansion.

14 *1. Neighborhood Expansion Pilot Program*

15 Q. Please describe the details of NYSEG's Neighborhood Expansion Pilot Program.

16 A. This pilot program will test a density based expansion approach where, if specific  
17 criteria is met, there would be no surcharge to customers for the gas main  
18 extension. Qualifying projects will have an average extension length per potential  
19 customer equal to 100 feet or less (e.g., for a 500 foot main extension, there  
20 would be at least five potential customers; for a 1,000 foot main extension, there  
21 would be at least ten potential customers). If NYSEG receives commitments  
22 from at least 60% of the customers that are required under current tariff

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1 provisions for a project to not have a surcharge, NYSEG will construct the project  
2 with no surcharge. Current tariff provisions provide a gas main extension  
3 allowance of 100 feet per customer. Therefore, a 1,000 foot gas main extension,  
4 under current tariff provisions, would require commitments from ten customers  
5 for there to be no surcharge. This pilot would require commitments from only six  
6 customers for there to be no surcharge. The rationale for this is that over the  
7 ten-year surcharge period for the main extension, NYSEG will likely connect at  
8 least the other 40% of the customers required under the tariff.

9 Q. How many Neighborhood Expansion projects will be included in NYSEG's pilot?

10 A. NYSEG plans to complete a minimum of 10 projects outside the Town of  
11 Plattsburgh and North Country areas. NYSEG will use its best efforts to design  
12 and complete construction in at least five of the ten locations by  
13 November 1, 2015.

14 Q. Will NYSEG submit periodic status reports on the Neighborhood Expansion Pilot  
15 Programs to Staff?

16 A. Yes. Periodic status reports will be provided and will include information such as  
17 the project scope and status, customer interest and connection information,  
18 marketing efforts, and construction costs.

19 Q. Has NYSEG provided the expected revenues, expenses and investment related to  
20 the Neighborhood Expansion Pilot Program?

21 A. No. At the time of filing of these rate cases, the Companies had not yet identified  
22 the revenues, expenses and investments related to specific pilot projects. NYSEG

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1 will provide this information in its update to these filings.

2 Q. Is RG&E considering a similar Neighborhood Expansion Pilot Program?

3 A. Yes, RG&E is considering implementing a similar program.

4 *2. Community Expansion Pilot Program*

5 Q. Please describe the details of NYSEG's Community Expansion Pilot Program.

6 A. This pilot program will test a community expansion approach that will provide a  
7 fixed surcharge quote for a project. Historically, developing larger main  
8 extension projects has been difficult due to two key challenges. The first is  
9 coordinating a large number of customers to commit to a project at the same time.  
10 The second is a surcharge that changes many times during the development  
11 period, prior to construction, as potential customers drop out of a project. The  
12 benefit of this pilot program is that it will provide solutions to both challenges.  
13 A fixed surcharge will be determined during the development of the project based  
14 on a forecast of interested and prospective customers that will connect over the  
15 ten-year surcharge period. Potential customers will know the surcharge before  
16 committing to take natural gas service and will have the option to pay upfront or  
17 monthly.

18 Q. How many Community Expansion projects will be included in this pilot?

19 A. NYSEG will evaluate two projects in 2015, and will use its best efforts to start  
20 construction in 2015.

21 Q. Will NYSEG submit periodic status reports on the Community Expansion Pilot  
22 Programs to Staff?

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1 A. Yes. Periodic status reports will be provided and will include information such as  
2 the project scope and status, customer interest and connection information,  
3 marketing efforts, and construction costs.

4 Q. Has NYSEG provided the expected revenues, expenses and investment related to  
5 the Community Expansion Pilot Programs?

6 A. No. At the time of the filing of these rate cases, the Companies had not yet  
7 identified the expected revenues, expenses and investment related to specific pilot  
8 projects. NYSEG will provide this information in its update to these filings.

9 Q. Is RG&E considering a similar Community Expansion Pilot Program?

10 A. Yes, RG&E is considering implementing a similar program.

11 *3. Community Development Fund Pilot Program*

12 Q. Are there any other programs NYSEG and RG&E are proposing to enhance the  
13 expansion of new franchises or gas mains?

14 A. Yes. The Companies are proposing a Community Development Fund Pilot  
15 Program dedicated to the expansion of natural gas to communities where either no  
16 approved gas franchise exists or where there is an existing approved franchise, but  
17 no gas infrastructure (gas main extension). This fund would match funding  
18 provided by local, regional, and/or State agencies to offset the capital costs to  
19 construct natural gas infrastructure in a community. This program has the  
20 potential to increase the construction of natural gas infrastructure by lowering  
21 surcharges to customers and increasing the likelihood that a project will be  
22 economically viable by the end of the development period.

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1 Q. What funding levels are NYSEG and RG&E proposing for the Community  
2 Development Fund Pilot Program?

3 A. The Companies are proposing a fund of \$300,000 for each Company with a  
4 maximum matching fund of \$100,000 per project.

5 Q. What is the time period the Companies are proposing for this pilot program?

6 A. The Companies are proposing a two-year pilot program.

7 Q. What would happen to unspent funds?

8 A. Unspent funds in a given year would be carried forward to the next year through  
9 the duration of the pilot program. At the end of the pilot program, any unspent  
10 funds would be addressed via a reconciliation mechanism.

11 **D. Conversion Rebate Program**

12 Q. Please explain NYSEG's natural gas conversion rebate program that will be  
13 implemented in 2015.

14 A. In 2015, NYSEG will implement a four-year \$1.75 million shareholder funded  
15 natural gas conversion rebate program to assist homeowners located in Clinton  
16 County, New York (NYSEG's Plattsburgh Division) with the cost of converting  
17 from another heating fuel to natural gas (except that \$94,500 of the \$1.75 million  
18 may be dedicated to rebates for NYSEG's Neighborhood Expansion Pilot and  
19 Community Gas Expansion Pilot Programs). The program will provide  
20 homeowners with a rebate for converting heating equipment to high-efficiency  
21 natural gas equipment from any other fuel type. Rebates of \$800 per installation  
22 are available with an additional rebate of \$500 for Home Energy Assistance

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1 Program (“HEAP”) qualified customers. High-efficiency equipment is equipment  
2 that would qualify under the Companies’ energy efficiency (“EEPS”) rebate  
3 programs. After four years, any funds remaining in the Rebate Program will be  
4 made available to customers in Lewis County and Schoharie County. The Rebate  
5 Program is expected to last four years or until funds are exhausted and funds will  
6 continue to be made available until exhausted.

7 Q. What is the rationale for NYSEG’s current conversion rebate program?

8 A. While there is a significant price differential between natural gas and other  
9 heating fuels, homeowners may incur potentially significant costs in switching to  
10 natural gas. These costs include, but are not limited to, the installation of a new  
11 heating system, natural gas piping, venting changes, fuel oil tank  
12 decommissioning, and, if applicable, surcharges to extend natural gas to the  
13 property. Conversion costs can range from \$500 or less for a simple conversion  
14 of existing propane equipment to over \$8,000 for some new high-efficiency boiler  
15 installations. The rebate program will assist homeowners with these conversion  
16 costs.

17 Q. Is NYSEG proposing to expand this conversion rebate program?

18 A. Yes. NYSEG proposes to offer a similar rebate program in the remainder of its  
19 service territory with rebate levels consistent with the rebate program to be  
20 offered in Clinton County. Specifically, the rebate levels would be \$800 for a  
21 regular rebate and an additional \$500 (\$1,300 total) for HEAP eligible customers.  
22 In addition, customers would remain eligible for currently applicable EEPS

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1 rebates.

2 Q. What is the estimated cost of NYSEG's proposal to expand the rebate program  
3 into the remainder of its service territory?

4 A. NYSEG is requesting a budget of \$380,000 per year for the program, which  
5 would be included in base rates; this budget is based on projected customer  
6 conversions from new franchises, main extensions, and sandwich/non-heat  
7 marketing programs. It is assumed that 75% of customers converting to natural  
8 gas will apply and be eligible for a rebate. NYSEG's rebate program budget is  
9 shown in Exhibit \_\_ (ESNGSEP-9) which details administrator fees and rebate  
10 payments.

11 Q. Is RG&E also proposing a gas conversion rebate program?

12 A. Yes. RG&E proposes to offer the same rebate program that NYSEG will be  
13 offering in Clinton County. The rebate program would be available to customers  
14 throughout RG&E's service territory.

15 Q. What is the estimated cost of RG&E's newly proposed rebate program?

16 A. Based on projected customer conversions from new franchises, main extensions,  
17 and sandwich/non-heat marketing programs, RG&E is requesting a budget of  
18 \$240,000 per year for the program, which would be included in base rates. As  
19 was the case for NYSEG, it is assumed that 75% of customers converting to  
20 natural gas will apply and be eligible for a rebate. RG&E's rebate program  
21 budget is shown in Exhibit \_\_ (ESNGSEP-9) which details administrator fees and  
22 rebate payments.

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1 Q. How will the Companies reconcile unspent rebate program funds?

2 A. Unspent rebate program funds in a given year will be carried forward to the next  
3 year.

4 Q. Are the Companies requesting the flexibility to modify the programs and rebate  
5 levels in the future?

6 A. Yes. The Companies would like the flexibility to modify the programs on an  
7 annual basis, based on factors such as historical program performance, new  
8 marketing strategies, and alternate fuel prices.

9 **E. Expansion of Economic Development Offerings for Natural Gas**  
10 **Expansion Non-Rate Programs**

11  
12 Q. Do NYSEG and RG&E have plans to expand their economic development  
13 offerings to support natural gas expansion?

14 A. Yes. As discussed in more detail in the Revenue Allocation, Rate Design,  
15 Economic Development and Tariff Panel, the Companies seek to increase the  
16 funding level for natural gas non-rate economic development programs. Provided  
17 certain usage and capital investment conditions are met, the Companies will  
18 invest up to \$200,000 per project in new gas infrastructure related facilities to  
19 help eligible business sectors and projects that are endorsed by one of the Empire  
20 State Development Regional Economic Development Councils and/or the  
21 Governor's office.

22 Q. What types of infrastructure related facilities will be eligible for funding?



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1 A. Program funding will be available for, but not be limited to, the following:  
2 improvements and/or reinforcements to the existing natural gas distribution  
3 system; gas main extensions and/or services that require a customer contribution;  
4 customer trenching and backfill associated with company-owned infrastructure;  
5 and customer-owned gas infrastructure needed to accommodate the anticipated  
6 incremental gas load requirements of this program.

7 Q. In what ways will this program expand natural gas service to those that do not  
8 receive it now?

9 A. The acquisition of natural gas service for large customers is often capital intensive  
10 and includes both utility contributions in aid of construction and customer capital  
11 to purchase natural gas equipment or to convert existing equipment to be able to  
12 utilize natural gas. This program will provide substantial assistance to customers  
13 to overcome the financial barriers associated with using natural gas.

14 **X. ELECTRIC INTERCONNECTION REQUESTS**

15 Q. Are the Companies experiencing an increase in electric interconnection requests?

16 A. Yes. NYSEG and RG&E have experienced dramatic growth in interconnection  
17 requests over the last several years. In 2010, NYSEG received 260 and RG&E  
18 received 61 interconnection requests. By 2013, interconnection requests for  
19 NYSEG and RG&E grew to 625 and 101, respectively. Aggregate NYSEG and  
20 RG&E annual increases from 2010 through 2013 ranged from 25% to 35%.  
21 In 2014, NYSEG interconnection requests totaled 1,273 and RG&E requests  
22 totaled 131, representing respective increases from 2013 of 104% and 30%. This

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1 growth trend is expected to continue in 2015 with total requests significantly  
2 exceeding 2014 levels. For example, in the first quarter of 2015, NYSEG  
3 received 434 requests and RG&E received 53 requests compared to 174 and 11  
4 respectively in the first quarter of 2014 (a 149% increase for NYSEG and a 382%  
5 increase for RG&E).

6 Q. Why are the Companies experiencing such an increase in interconnection  
7 requests?

8 A. Reasons for the dramatic increase in interconnection requests are numerous.  
9 Government incentives play a role. Cash incentives from NYSERDA and state  
10 and federal tax breaks are available for qualifying solar installations. The cost of  
11 solar installations is also declining, improving the economic payback to customers  
12 for system installation. Net metering provisions in New York also provide an  
13 offset for energy and delivery charges on customer electric bills. System  
14 developers and other parties are also offering innovative financing arrangements,  
15 such as lease agreements, that are a selling point for certain customers. Moreover,  
16 the Commission's Reforming the Energy Vision proceeding (Case 14-M-0101),  
17 with its emphasis on distributed generation, will likely incent increased  
18 interconnections for years to come.

19 Q. How are the Companies handling this increased workload?

20 A. The Companies' response to the increased workload has been twofold. First, the  
21 Companies implemented process improvements and automation to streamline  
22 interconnection application processing and approvals. Second, in 2015, the

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1           Companies added two full-time equivalent (“FTE”) contract employees to the  
2           Interconnections Group staff. The Companies plan to assign two additional FTEs  
3           to the interconnection staff during 2015. The Companies will continue to monitor  
4           interconnection growth rates and assess personnel needs in 2015 and 2016.

5   Q.       Does this complete your testimony at this time?

6   A.       Yes, it does.