STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on April 11, 2006

COMMISSIONERS PRESENT:

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

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

ORDER DENYING PETITIONS FOR REHEARING AND CLARIFICATION IN PART AND ADOPTING MANDATORY HOURLY PRICING REQUIREMENTS

(Issued and Effective April 24, 2006)

BY THE COMMISSION:

INTRODUCTION

On September 23, 2005, we issued an Order directing New York's electric investor-owned utilities to file draft tariffs and outreach plans that would extend mandatory hourly pricing programs to more of New York's non-residential customers.[1] The goal in implementing hourly pricing is to realize the benefits of reducing the electric system's peak period demand and shifting load to off-peak, less expensive time periods. The benefits for customers were described as potential reductions to peak period prices, enhanced peak period reliability, wholesale market power mitigation, and a reduction

[1] Case 03-E-0641, supra, Order Instituting Further Proceedings and Requiring the Filing of Draft Tariffs (issued September 23, 2005) (2005 Hourly Pricing Order).

in New York State's dependence on natural gas fueled generation. In the face of rising electric prices caused by rising natural gas prices, which accelerated in the aftermath of Hurricanes Katrina and Rita, we identified a need to move expeditiously toward hourly pricing for the State's largest customers.

In proposing to move more swiftly to hourly pricing, we observed that: (1) the effort to pursue hourly pricing via the voluntary route has failed to achieve satisfactory results, with too few customers signing up for the voluntary program; (2) Central Hudson Gas & Electric Corporation (Central Hudson) successfully implemented mandatory Hourly Pricing in 2005, with few adverse customer impacts and complaints; (3) accelerating the implementation of mandatory Hourly Pricing would be an appropriate response to burdensome electric price increases and the electric system's growing dependence on high-priced natural gas during peak load hours; and (4) reducing peak period demand offers the potential to exert downward pressure on energy prices in the State.

BACKGROUND

Hourly pricing plays a significant role in the State's overall goal of providing reliable electricity at reasonable prices. The dozen or so hours a year in which demand for electricity reaches extreme peak levels, usually during the afternoons in the middle of summer heat waves, drive generation capacity requirements. It is during these hours that shortages are likely to occur and prices to rise. Yet, in the absence of hourly pricing, the prices charged during extreme peak hours are prices that have been averaged over hundreds or thousands of hours. While these prices are correct on average, they dramatically understate the cost of electricity during extreme peak hours.

Following implementation of this Order, approximately 700 full-service utility customers and 1,500 retail access customers will be subject to hourly pricing. If all of the retail access customers taking service from an energy service company (ESCO) chose an hourly pricing offering from among a variety of ESCO offerings, over 2,200 of New York's largest non-residential customers, representing approximately 5,300 megawatts (MW) of aggregate load - roughly 15 percent of the State's total peak demand for electricity - would see and be billed at true day-ahead hourly market prices for electricity. It is estimated the 5300 MW of aggregate load subject to the Hourly Pricing programs approved in this Order could yield total demand reductions during peak hours of approximately 750 MW.[2]

The 2005 Hourly Pricing Order directed New York State Electric & Gas Corporation (NYSEG), Rochester Gas & Electric (RG&E), Consolidated Edison Company of New York, Inc. (Con Edison), and Orange & Rockland Utilities, Inc. (Orange & Rockland) to file draft tariffs and outreach and education plans to accelerate and implement mandatory hourly pricing for their largest customer classifications taking service under mandatory time-of-use rates.[3] It also directs National Grid to file draft tariffs establishing mandatory Hourly Pricing for its Service Classification No. 3 (SC-3) customers. The Hourly Pricing Order requires these utility filings to include: 1) a plan for education and outreach; 2) a plan to make interval meters and

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[2] Less demand reduction may occur in the first several years, and greater demand reduction may occur in the later years as response strategies evolve.

[3] The 2005 Hourly Pricing Order also directs Central Hudson to submit plans for enhancing its outreach efforts, as necessary to improve its mandatory Hourly Pricing program established in 2005; following its filings, development of those plans continues.

metering systems available to customers; and 3) a report on the feasibility of equipping customers with tools for measuring usage and acquiring other data needed to monitor consumption in real time.

Pursuant to State Administrative Procedure Act (SAPA) §202(1), notice of the proposed action was published in the State Register on October 12, 2005. The SAPA deadline for filing comments expired on November 28, 2005. The comments received in response to the Notice, and the 2005 Hourly Pricing Order, are discussed later.

PETITIONS FOR REHEARING AND CLARIFICATION

National Grid, NYSEG/RG&E, Multiple Intervenors,[4] and Consumer Power Advocates[5] filed petitions for rehearing and clarification of the Hourly Pricing Order. The Retail Energy Supply Association and the Small Customer Marketer Coalition (Small Customer Marketer Coalition) replied to the petitions.

The Petitions

A. Multiple Intervenors

Multiple Intervenors (MI) begins with an analysis of the 2003 Order in this proceeding.[6] According to MI, it was decided there that there were numerous impediments to implementing real-time pricing (RTP) on a mandatory basis. MI

[4] Multiple Intervenors is an unincorporated association of approximately 55 large industrial, commercial and institutional energy consumers with manufacturing and other facilities located throughout New York State.

[5] Consumer Power Advocates member institutions include Columbia University, Continuum Health Partners, Memorial Sloan-Kettering Cancer Center, Mount Sinai Medical Center, New York University (NYU) Medical Center, NYU Downtown Hospital, New York Presbyterian Hospital, and NYU.

[6] Case 03-E-0641, supra, Order on Expansion of Voluntary Real-Time Pricing Programs (issued October 30, 2003).

adds that the 2003 Order also recognized that obstacles to RTP must be addressed before it could be mandated.

The 2003 Order, MI notes, was followed by the Compliance Order, where utility proposals to promote voluntary RTP were considered.[7] Without waiting to complete the process for promoting voluntary participation in RTP, MI complains, the 2005 Hourly Pricing Order dispensed with the voluntary process and replaced it with a mandatory requirement. This reversal of policy, MI contends, is unjustified.

According to MI, requiring the implementation of mandatory RTP for NYSEG and RG&E would violate their existing electric rate plans. MI describes those rate plans as providing for various rate options, but mandatory RTP is not among them. Supplanting the existing rate options with mandatory RTP, MI insists, is an error of law, especially since the 2005 Hourly Pricing Order does not reference those existing rate plans.[8]

Interpreting the 2005 Hourly Pricing Order as a rule mandating RTP, MI maintains that adoption of the mandate directing electric utilities to file draft RTP tariffs fails to comport with the requirements of SAPA. According to MI, adopting that mandate could not be accomplished until prior notice was given under SAPA. While conceding that a SAPA notice was properly issued after the 2005 Hourly Pricing Order was promulgated, MI describes that notice as deficient because it

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[7] Case 03-E-0641, supra, Order Approving Marketing Plan Compliance Filings In Part and Directing Further Filings (issued August 1, 2005).

[8] Case 01-E-0359, New York State Electric & Gas Corporation – Electric Price Protection Plan, Order Adopting Provisions of Joint Proposal with Modifications (issued February 27, 2002); Case 03-E-0765, et al., Rochester Gas & Electric Corporation – Electric and Gas Rates, Order Adopting Provisions of Joint Proposals with Conditions (issued May 20, 2004).

was not issued prior to the rulemaking where the decision to impose RTP on a mandatory basis was made.

MI also argues that the decision to impose mandatory RTP on only large customers is based on errors of fact. The decision, MI discerns, arises out of concern over increasingly high-priced and volatile wholesale markets for electricity. Singling out large customers, MI complains, for mandatory RTP when those prices are both high and volatile, unreasonably exposes those customers to the harms attending those prices.

The 2005 Hourly Pricing Order, MI declares, also overly relies on the implementation of mandatory RTP programs at National Grid and Central Hudson. MI argues that mandatory RTP for National Grid was adopted in the context of a rate proceeding, where the impacts of cost increases on customers could be addressed. Central Hudson’s implementation, MI adds, is of recent vintage and involves only a small number of customers. As a result, MI contends that Central Hudson’s experience does not demonstrate that imposing mandatory hourly pricing on a wider basis over more customers at larger utilities would be successful.

Consumer Power Advocates

According to Consumer Power Advocates, while some large industrial customers may be able to adjust to hourly pricing by reconfiguring their load, educational institutions and hospitals cannot. These institutions, Consumer Power Advocates continues, often operate on a not-for-profit basis, and lack the ability to absorb the cost increases they would likely experience under hourly pricing. It also contends that these types of institutions cannot readily avail themselves of the opportunity to hedge prices through financial instruments.

Consumer Power Advocates claims that these institutions cannot adjust their load in response to changing hourly prices. It maintains that personnel at these institutions are not in a position to analyze prices in the New York Independent System Operator's (NYISO) day ahead market, and then decide how to respond to those prices by the deadlines established for participation in NYISO markets.

The response of not-for-profit institutions to hourly prices, Consumer Power Advocates believes, would be to seek fixed price arrangements with ESCOs, but Con Edison's tariff seems to limit that alternative because it requires customers to remain with hourly pricing for a period of at least one year. Consumer Power Advocates also describes other barriers to effective participation in hourly pricing these institutions, would face under existing hourly pricing tariffs and protocols.

National Grid

The 2005 Hourly Pricing Order, National Grid notes, requires it to extend mandatory RTP to the entire SC-3 class without regard to customer size. Noting that it already engages in mandatory RTP for its largest customers, National Grid states it would be willing to extend RTP to smaller-sized customers in SC-3 in phases. According to National Grid, extending RTP to all 4,500 customers in its SC-3 class would require a massive effort. Many of these customers, National Grid emphasizes, are relatively small and unsophisticated. It would therefore begin to move this class to mandatory RTP with those customers sized at least 500 kW. National Grid points out that few, if any, utilities in New York or elsewhere have extended mandatory RTP to customers sized at less than 500 kW.

According to National Grid, there is no factual basis for imposing mandatory RTP on customers sized at less than 500 kW, and no justification for a finding that benefits would be realized from the imposition of mandatory RTP on customers of this size. The utility believes, however, that extending RTP to the 721 SC-3 customers sized between 500 kW and 2,000 kW may bring forth additional demand response, in addition to the response realized from the 274 SC-3A customers sized at 2,000 kW or above that are already subject to mandatory RTP.

National Grid also complains that the 2005 Hourly Pricing Order is silent on the cost of implementing mandatory RTP, especially for smaller customers. According to National Grid, installation of interval metering equipment and implementation of outreach and education for the SC-3 customers would cost at least $2 million, not including the expense of telephone lines required for automatic reading of the meters. National Grid asks for authority to recover those costs through the Systems Benefits Charge administered by the New York State Energy Research and Development Authority (NYSERDA). National Grid argues that expanding the scope of RTP would yield societal benefits, which justifies the spending of Systems Benefits Charge monies to realize those benefits.[9]

NYSEG/RG&E

According to NYSEG/RG&E, the 2005 Hourly Pricing Order assumes, without a factual basis, that imposing mandatory RTP will reduce peak usage. The utilities complain that those reductions will not be realized, because customers may simply choose a fixed price option from an ESCO over participating in mandatory RTP. Under those circumstances, the utilities claim, reductions in peak demand would not be realized. The utilities add that limiting their service offering to mandatory RTP is in effect a restriction on the marketplace that reduces competition. The utilities also dismiss the conclusions reached in the Order based on the experience of Central Hudson and National Grid, because it claims there is no proof the same

[9] Case 05-M-0090, Systems Benefits Charge III, Order Continuing the Systems Benefits Charge (SBC) and the SBC-Funded Public Benefit Programs (issued December 21, 2005).

benefits could be realized in other utilities' service territories.

NYSEG/RG&E argue that they should not be required to pursue mandatory RTP because such a rate change should be addressed only in the context of a rate plan proceeding. The utilities note their current rate plans remain in effect, and that changing them to provide for mandatory RTP should be addressed only when those rate plans expire.

Small Customer Marketer Coalition

Replying to the petitions for rehearing, the Small Customer Marketer Coalition maintains that the parties requesting rehearing have failed to undermine the validity of the assessment of the need for accelerated implementation of RTP made in the 2005 Hourly Pricing Order. Describing NYSEG's arguments as flawed, the Small Customer Marketer Coalition explains that even if an hourly pricing customer turns to an ESCO, the customer will still be exposed to real-time price signals. Once the hourly RTP price signals become visible, it asserts, sophisticated large-volume customers can modify usage patterns to decrease overall costs when taking ESCO service under a variety of ESCO offerings.

The Small Customer Marketer Coalition also points out that requiring hourly pricing by utilities does not undermine retail choice. ESCOs, it stresses, will make a variety of offerings to customers that meet their needs and so restricting the utility to the hourly pricing offer will not adversely affect customers or reduce competition.

Dismissing the arguments of NYSEG/RG&E and MI that adopting hourly pricing would unreasonably interfere with existing rate plans, the Small Customer Marketer Coalition states that none of the rehearing parties has identified a specific conflict between hourly pricing and a rate plan. The

Small Customer Marketer Coalition also believes that delaying introduction of hourly pricing until long-term rate plans have run would unreasonably deprive customers and society generally of the benefits of RTP. The need for RTP, it adds, as a tool for responding to rising and volatile electric wholesale prices, has been adequately justified.

While the Small Customer Marketer Coalition does not object to National Grid’s proposal to phase-in application of RTP to its SC-3 customers, it believes the sequential process should still be accomplished expeditiously. All customers, the Small Customer Marketer Coalition declares, should be afforded the opportunity to receive accurate and timely price signals as soon as possible.

Discussion

To the extent that the parties requesting rehearing or clarification argue that we may not impose mandatory RTP in the form of hourly pricing here, the petitions lack merit. National Grid, however, is correct in pointing out that a phased approach to introducing mandatory hourly pricing to its SC-3 class is superior to requiring all of those customers to accept mandatory hourly pricing at this time. Other points the parties raise in their petitions, such as National Grid’s request for authorization to spend Systems Benefits Charge funds on implementing mandatory hourly pricing and Consumer Power Advocates’ criticisms of Con Edison’s tariffs, are better considered as comments to the issues raised in this proceeding rather than as petitions for rehearing or clarification. Accordingly, those issues are addressed in the context of the implementation of mandatory hourly pricing rather than as petitions.

Contrary to the claims of MI and NYSEG/RG&E, we may impose hourly pricing here. Existing utility rate plans are not an obstacle to adopting that policy or requiring utilities to tariff mandatory hourly pricing. It is a long-standing principle of administrative law that an administrative agency may change its policies and modify its prior Orders upon a justification for the modifications. For the reasons discussed below, moving now from voluntary RTP to mandatory hourly pricing is fully justified and in the public interest. As to the terms of existing Orders, the provisions of currently-effective rate plans need not stand in the way of such a justifiable policy change, and may be modified to conform to the requirements of the new policy.

Moreover, instituting mandatory hourly pricing works only a small change on the existing RG&E Rate Plan, and no change whatsoever on the NYSEG Rate Plan. We will not require NYSEG to implement mandatory hourly pricing until January 1, 2007, after its currently-effective Rate Plan expires on December 31, 2006. As to RG&E's Rate Plan, its options for the purchase of electric commodity supply expire as of December 31, 2006, and customers would be required to select among reconfigured rate options as of January 1, 2007 in any event. Implementing at that time, as we will, the requirement that RG&E impose mandatory hourly pricing fits acceptably within the framework of RG&E's Rate Plan. As a result, the contention that the rate plans prevent adoption of mandatory hourly pricing is rejected.

According to MI, mandatory hourly pricing was adopted without satisfactory notice under SAPA. MI misunderstands the impact of the 2005 Hourly Pricing Order. That Order did not adopt mandatory hourly pricing. It merely stated the reasons for proposing a change in policy from voluntary RTP to mandatory hourly pricing, and required utilities to file draft tariffs so that a change in policy could be effectuated promptly if justified. Announcing a proposal to change policy and establishing a filing requirement are procedural matters, and are not rulemakings requiring prior notice under SAPA. While compelling the utilities to file binding tariffs in conformance with a change in policy will be an action under SAPA, as MI concedes, notice of that proposed action has been given and the time for commenting on it has expired.

Moreover, all parties were afforded additional time beyond the expiration of the SAPA notice period to comment on the utility draft tariffs, to ensure that all due process considerations were met. As we have complied with SAPA, and given parties more than ample opportunity to submit filings in support of their positions on the draft tariffs, we may move now to adopt mandatory hourly pricing and require the utilities to file the tariffs that will implement that new policy.

Contrary to NYSEG's and RG&E's assertions, in considering the new policy, we have not disregarded the possibility that some customers may migrate to retail access in reaction to hourly pricing requirements. Choosing an alternative energy supplier, however, is an option that customers can and should evaluate when deciding how to best manage their energy needs. Customers should have the opportunity to take retail service from alternative suppliers at other than hourly prices to the extent such retail pricing structures are available and in the customers' best interests.

The ESCOs of customers that would otherwise take hourly pricing service from the utility, however, will be assigned each customer's hourly load and will have the obligation to purchase electricity from the wholesale market that matches that hourly load pattern. As such, ESCOs will be assigned the appropriate hourly costs. As is the case for retailers of most unregulated products, each ESCO would be able to determine what additional risk management products to purchase, if any, and what retail products to offer to support its customer base. As the Small Customer Marketer Coalition points out, through this process, even those customers that take a fixed price offering from an ESCO will be impelled to respond in some fashion to the use of hourly price signals.

NYSEG's and RG&E's argument that mandating utility hourly pricing limits the customer's choice of supply options lacks merit. The only limitation resulting from the implementation of hourly pricing is that the utilities' default service for the designated large customers will now be hourly pricing. These customers can choose to take commodity service from the utility under the hourly price rate structure or select from a wide variety of commodity service offerings from an alternative commodity supplier. Customers therefore are not restricted in the pricing options available to them; only the utility is restricted in what it may offer. Limiting utility offerings to hourly pricing in order to send more accurate price signals enhances the potential for realizing the demand response benefits afforded by hourly pricing without restricting customer choice.

Finally, Multiple Intervenor's and NYSEG’s argument that we relied too much on the experience of National Grid and Central Hudson in implementing hourly pricing is unfounded. We may reference the positive experiences of those utilities as one factor justifying an expansion of hourly pricing to all of the State’s combination gas and electric utilities.

National Grid’s request to develop a phased approach for implementing hourly pricing in stages for SC-3 customers is reasonable, as discussed further below. Rehearing is granted in part, to relieve the utility from proceeding with mandatory hourly pricing for its entire SC-3 class at this time.

JUSTIFICATION FOR A NEW POLICY

The justifications for changing our policy from voluntary RTP to imposing mandatory hourly pricing on large customers were proposed in the 2005 Hourly Pricing Order. Parties opposing mandatory hourly pricing have failed to countermand the justifications and rationales we suggested there. Rising gas prices, exacerbated by the after-effects of Hurricanes Katrina and Rita, have concomitantly forced upward the price of electric generation that depends on gas as a fuel. Even as the after-effects of Hurricanes Katrina and Rita fade, gas prices are likely to remain comparatively high for some time. Moreover, additional hurricanes in the gas-producing regions of the Gulf of Mexico may be expected from time to time in the future. As a result, it is wise policy to reduce the on-peak electricity usage that is generally met with generation fueled by gas.

Reducing that peak usage will benefit all customers. If peak usage falls, the price of the expensive generation needed to meet that usage will also fall. This will bring down the average price of electricity for all customers. Mandatory hourly pricing is a useful tool for achieving that objective. As price signals for the highest peak hours are transmitted to customers, those large customers can be expected to respond, as the experience of National Grid and Central Hudson demonstrates. Since large customers use amounts of electricity disproportionate to their number, that response could have a significant impact on peak period prices.

More accurate price signals are also known to promote economic efficiency in general. Moreover, as demand-side load reduction and load control measures are implemented in response to these price signals, the potential for the exercise of wholesale market power is mitigated. Gaining and taking advantage of market power is more difficult, particularly during peak periods, when efforts to increase the price of supply meet resistance in the form of reductions to demand. As a result, moving from a policy of voluntary RTP to a policy of mandatory hourly pricing for large customers is fully justified at this time.

UTILITY TARIFF FILINGS

In accordance with the 2005 Hourly Pricing Order, NYSEG, RG&E, Con Edison, Orange & Rockland, and National Grid filed draft tariffs implementing mandatory hourly pricing and Central Hudson filed a report on the outreach and education efforts for its largest mandatory time-of-use electric customers. The filings are described in detail in Appendix A. The 2005 Hourly Pricing Order provided interested parties an opportunity to submit written comments on the utilities' draft tariffs within 60 days of their submission.[10]

The following parties filed comments in response to the utilities' draft tariffs: Amerada Hess; Cooperative Coalition to Prevent Blackouts and Energy Investment Systems, Inc. (Cooperative Coalition to Prevent Blackouts); E Cubed Company, LLC and Joint Supporters (E Cubed);[11] Greater NY Hospital Association; New York Energy Consumers Council; New York State Department of Economic Development; Luthin Associates

[10] On February 15, 2006, Staff held a Technical Conference with the parties to discuss issues raised in the parties' comments. The conference was attended by approximately 35 parties representing the utilities, large customers, ESCOs, customer representatives, and the NYISO.

[11] Joint Supporters consists of Allied Energy Services, LLC; Coast Intelligen, Inc.; Energy Concepts Engineering, PC; Energy Solutions Group, LLC; Energy Spectrum, LLC; EnerNOC, Inc.; Equity Office Properties Trust; Fairway Operating Corporation; Northern Power Systems; Pier 41 Associates; Red Hook Stores, LLC; and RedWood Power.

and Consumer Power Advocates (Consumer Power Advocates); Select Energy; and the Small Customer Marketer Coalition.

Implementation Dates and Size Thresholds

Utility Filings

Although we did not specify an implementation date for hourly pricing tariffs in the 2005 Hourly Pricing Order, we noted that implementation should be expedited, to realize the benefits of hourly pricing's impact on peak energy prices as soon as possible. The utilities propose a variety of implementation dates in their draft tariffs. Con Edison and Orange & Rockland propose a May 1, 2006 start date. National Grid proposes a June 1, 2006 start date, but subsequently has decided to pursue a start date of September 1, 2006. NYSEG proposes a January 1, 2007 start date, with customers receiving interval load data beginning July 1, 2006. RG&E proposes a January 1, 2009 start date, with customers receiving interval load data beginning on July 1, 2008.

Con Edison and Orange & Rockland would convert all their mandatory time-of-use customers to hourly pricing,[12] consistent with the intent expressed in the 2005 Hourly Pricing Order. National Grid, NYSEG, and RG&E propose to convert only a portion of their mandatory time-of-use or otherwise targeted customers to hourly pricing at this time. National Grid would transfer its largest SC-3 customers(sized at 500 kW and above),[13] and NYSEG and RG&E would initially move to hourly pricing mandatory time-of-use customers with loads of 1,000 kW or more.

[12] Con Edison's mandatory time-of-use customers are those with peak demands greater than 1.5 MW; Orange & Rockland's customers are those with peak demands greater than 1 MW. Central Hudson's Hourly Pricing Program applies to customers with peak demands greater than 1 MW.

[13] National Grid's SC-3 comprises approximately 3,800 additional customers with peak loads above 100 kW.

The following table summarizes the number of full service and retail access customers and the estimated aggregate load subject to hourly pricing proposed in utility draft tariffs.

	Full Service		Retail Access		Total	
	Customers	**Load(MW)**	**Customers**	**Load(MW)**	**Customers**	**Load(MW)**
Consolidated Edison	140	295	536	1,714	676	2,009
Orange & Rockland	43	117	38	72	81	189
National Grid	264	409	457	500	721	909
National Grid SC-3A[14]	89	235	185	551	274	786
NYSEG	99	365	145	385	244	750
RG&E	50	137	121	348	171	485
Central Hudson[15]	32	150	26	70	58	220
Total	**717**	**1,708**	**1,508**	**3,640**	**2,225**	**5,348**

In addition to the full service customers that will face utility-tariffed hourly prices, retail access customers will see interval meters installed at their locations. The data from an interval meter can provide an efficient wholesale price signal to the ESCO serving the customer.[16] The extent to which a particular ESCO's retail rates reflect these hourly wholesale price signals, however, is a matter for that ESCO and its customers to determine. As a result of this effort, the

[14] National Grid has billed its SC-3A large time-of-use customers at hourly prices since September 1998.

[15] Central Hudson began billing its SC-3 and SC-13 customers at hourly prices in May 2005.

[16] Without such meters, the load reported to the NYISO for these customers is based on monthly consumption and class average load shapes. As customers are transferred to hourly pricing, all utilities should ensure that actual hourly load data for hourly pricing eligible customers (rather than data based on class average load shapes) is reported to the NYISO for each utility or ESCO serving customers in this class.

combination of utility and retail access load receiving individual hourly load information would increase to approximately 15% of the system peak load.

Parties' Comments

Addressing the implementation date and size threshold issues, several commentators representing customers recommend that we proceed cautiously in implementing hourly pricing. The Cooperative Coalition to Prevent Blackouts expressed concern about the risk of implementing mandatory hourly pricing without satisfactorily addressing the multiple issues that emerged from four voluntary hourly pricing customer projects in Con Edison's territory. These issues include transparent rates, ability of building owners to provide tenants with price signals while complying with the Home Energy Fair Practices Act (HEFPA),[17] education efforts focused on building residents, providing computer modeling of hourly pricing, and availability of free rate comparisons.

Select Energy maintains that RG&E's proposed January 1, 2009 start date conflicts with the 2005 Hourly Pricing Order's recommendation to expedite the mandatory hourly pricing process. Empire State Development believes implementation of hourly pricing for all utilities by May 2006 would be desirable. It states that the benefits of hourly pricing include reducing peak period demand and shifting load to less expensive off-peak periods and that the ability to manage energy consumption effectively should reduce the rising cost of energy. Those benefits, it posits, would stimulate business expansion and job creation in New York. It further states that mandatory hourly pricing should be extended to all customers with demands of 500 kW or greater within a two year period.

[17] Public Service Law, Article 2.

Greater NY Hospital Association objects to implementation of hourly pricing as quickly as the proposed May 2006 date. Too early an implementation, it claims, would not afford hospitals adequate opportunity to obtain grants from NYSERDA to facilitate load shifting and conservation. New York Energy Consumers Council urges delay in implementing hourly pricing until access to real-time load data, clear price signals, and training in methods for reacting to load and market conditions is readily available. Consumer Power Advocates urges us to delay the implementation of hourly pricing by approximately 12 to 18 months to allow customers the opportunity to develop tools and processes for responding to hourly prices. At the technical conference of February 15, 2006, representatives of International Wire Group and Novartis expressed concern about an overly rapid implementation of hourly pricing.

Discussion

In the 2005 Hourly Pricing Order, we expressed a desire to implement hourly pricing expeditiously in order to provide accurate price signals, afford an opportunity for customers to shift load and realize potential savings, and to reduce peak system demand, particularly in the summer. The underlying circumstances affecting implementation are different at each of the utilities, however, and the consideration of different treatments and different implementation dates tailored to the specific situation of each utility is warranted.

The May 1, 2006 implementation date Con Edison and Orange & Rockland propose would serve the public interest for several reasons. Interval metering is in place at those utilities for the entire mandatory time-of-use class; therefore, the companies are in a position to implement hourly pricing sooner than other utilities. Given the tighter load and capacity situation in the downstate area, it is critical that hourly pricing be established before the summer in those service areas to encourage demand response. Lastly, both Con Edison and Orange & Rockland have proceeded since issuance of the 2005 Hourly Pricing Order with planning for achieving a May 1, 2006 implementation date. They have conducted public information exchanges with their eligible hourly pricing customers (as discussed below), and have made quicker progress than other utilities in the process of preparing customers for transfer to the new hourly pricing service.

Although National Grid initially proposed to implement hourly pricing by June 2006, it subsequently selected a September 1, 2006 start date, for beginning the phase-in of SC-3 customers to hourly pricing. National Grid's large mandatory time-of-use customers, in SC-3A, have been billed at hourly prices since implementation of its Power Choice Rate Plan in September 1998, and it is the only utility that must, under the 2005 Hourly Pricing Order, require hourly pricing for customers not already taking time-of-use rates. The portion of the SC-3 class the utility targets for the initial phase-in is large, consisting of 264 full service and 457 retail access customers with demands above 500 kW that do not currently take time-of-use rates and so are less-experienced in dealing with time-sensitive pricing. At approximately 900 MW of load, this group of customers out-numbers and cumulatively draws more demand than any other group of customers that any other utility proposes to move to hourly pricing in response to the 2005 Hourly Pricing Order at this time. Moreover, the 500 kW threshold is lower than at any other utility.

As a result, it is appropriate to afford National Grid additional time to implement hourly pricing. During that time, the utility and customers can work with consultants and ESCOs in reviewing, monitoring and evaluating historic and prospective load and billing data through the coming summer season, and installing load management equipment. The utility also can verify the proper functioning and operation of newly installed interval meters before using them for billing purposes.

After National Grid evaluates the impacts on this initial group of SC-3 customers in terms of load responsiveness, customer satisfaction and lessons learned, it would, if appropriate, extend hourly pricing to smaller (below 500 kW demand) SC-3 customers in staged increments thereafter. National Grid is directed to file a more specific plan and schedule for converting the remaining SC-3 customers to hourly pricing, at the time that it files its final tariffs for the initial group of SC-3 customers.

NYSEG and RG&E propose start dates of January 2007 and January 2009, respectively, which are coincident with the end of their respective multi-year rate plans. NYSEG and RG&E offer standard commodity service options that include a fixed rate option under which subscribed customers are obligated by the tariff for a one or two-calendar-year period. NYSEG's two-year and RG&E's one-year fixed rate terms are scheduled to expire on December 31, 2006. RG&E argues that hourly pricing service was not considered in its Rate Plan and should not, therefore, be implemented prior to the Plan's scheduled expiration on December 31, 2008, or a January 1, 2009 start date.

NYSEG and RG&E propose converting only the largest segment (1,000 kW demands and above) of their mandatory time-of-use customers to hourly pricing. NYSEG and RG&E's mandatory time-of-use tariffs apply to customers with demands at or above 500 kW and 300 kW, respectively. As shown on the preceding table, the associated full service load transferred to hourly pricing under their proposals, 365 MW and 137 MW respectively, equates to approximately 13% and 8% of their respective system loads, well within the percentages of system load the other utilities propose. We direct NYSEG and RG&E, as a first phase of hourly pricing implementation, to begin the conversion with the largest customers, 1,000 kW demands and above, consistent with their proposals. NYSEG and RG&E are directed to file a schedule for converting their remaining mandatory time-of-use customers sized below 1,000 kW to hourly pricing when they file their tariffs implementing hourly pricing.

Although mandatory hourly pricing is not an element of RG&E's Rate Plan, there is no compelling reason to delay implementing new rate structures at this time. The dramatic increase in electricity prices that took place this past summer and fall prompt us to expedite implementation of mandatory hourly pricing for the largest mandatory time-of-use utility customers in the State; a statewide hourly pricing program, in fact, has been under study since the inception of this case on April 30, 2003. January 1, 2007 is the next available opportunity for substituting hourly pricing for the otherwise applicable customer-selected utility commodity service options within its current Rate Plan. It is reasonable and in the public interest to direct RG&E to commence mandatory hourly pricing coincident with the expiration of its current one-year commodity service offering, which is on January 1, 2007. Consistent with its filing, NYSEG shall also commence the new hourly pricing offering as of that date.

Rate Transparency and Standardization

Parties' Comments

Several of the parties, primarily the ESCOs, urge implementation of transparent utility tariffs that fully delineate and explain all commodity-related cost elements included in the derivation of hourly day-ahead retail energy prices that will be quoted to hourly pricing customers. They state that more transparent tariff language would enable marketers and ESCOs to perform rate comparisons and more readily evaluate potential bill impacts of alternative options for customers.

Amerada Hess proposes specific tariff language, including formulae, for the utilities to consider in order to identify the pricing detail necessary, in its view, to market alternative services to customers effectively. Amerada Hess comments that hourly pricing default service rates should not contain cross-subsidy cost components that mask the true cost of serving specific customers. It goes on to say that a retail hourly pricing system based on specific customer load data, as opposed to class average load profile data, should be established so that costs can be more precisely assigned to specific customers, whenever possible. Amerada Hess concludes that hourly pricing default service retail pricing structures should be standardized across all utilities in New York.

Select Energy asserts that the design of utility hourly pricing commodity prices should not reflect any of the costs and benefits of utility hedges, to the extent such costs and benefits are still extended to these large time-of-use customers. Further, it opposes the use of forecasting/true-up mechanisms that expose the customers to only some portion of true day-ahead hourly prices in a particular month. Other parties join in these arguments.

It is vitally important, Select Energy contends, for ESCOs to timely receive customer interval consumption data through a convenient distribution method and in an easy to use electronic format. It recommends that access to all utility energy cost analysis tools be opened at no charge to all customers, whether utility full service commodity customers or

ESCO commodity customers. Access for only utility commodity customers, Select Energy argues, would unfairly entrench customers with the utility because an ESCO would have to try to recoup the costs of similar type offerings from a customer base that is not captive.

The Small Customer Marketer Coalition argues that it is vitally important to adopt an efficient Electronic Data Interchange protocol to govern the transfer of interval meter data from the ESCO or Meter Data Service Providers to the utility and/or the ESCO and/or the billing party. The Small Customer Marketer Coalition asserts that ESCOs require timely on-line access to hourly usage data in order to fully and properly serve the needs of these customers.

According to the New York Energy Consumers Council, customers must be afforded easy real-time access to their own load profiles, including clear and unambiguous information on the actual hourly market prices. It states that many customers who ostensibly have access to such technology and information are not yet trained to acquire and effectively manage the information. Consumer Power Advocates takes issue with the Con Edison draft tariff proposal to post day-ahead retail market prices at 4 p.m.; instead it advocates a 1 p.m. posting.

Discussion

Many of these rate standardization issues were discussed among the parties at the Technical Conference. While a standard statewide hourly price mechanism may be preferable, as a practical matter, given existing differences among utility pricing mechanisms and rate plans, it does not appear possible to fully achieve the standardization the ESCOs espouse and also satisfy our goal for expeditious implementation of the program. Moreover, implementing hourly pricing now with the means available will send reasonably correct price signals to customers. Improvements that will move towards standardization among utilities can be pursued following initial implementation. It should be noted that hourly prices in each of the utility's programs would be based on the same Day-Ahead zonal hourly wholesale prices from the NYISO, achieving some measure of standardization immediately.

Discussions with the parties have helped to identify opportunities for improvements in the derivation of retail hourly prices. We expect Staff to continue to work with utilities to improve the standardization and transparency of hourly pricing tariffs. In addition, the six-month reports and the two-year checkpoint, described in the Reporting and Evaluation section below, should also identify progress in standardization and transparency.

Complete and timely access to the customers' hourly load data and billable retail prices by their representative marketers and ESCOs is crucial to their ability to identify and evaluate load shifting or conservation options in response to these prices. Because complete standardization is not achievable at this time, we will address that concern by directing each utility to include hourly pricing tariff language explaining, in detail, its development of hourly day-ahead retail prices. As to the consumer advocates’ other concerns, the utilities' hourly prices would be based on the NYISO's day-ahead zonal hourly wholesale prices, which are publicly available on the NYISO Website by 11:00 a.m. Given that availability, Con Edison’s 4:00 p.m. posting time is acceptable.

Further, the issue of access to load data is under consideration in the Competitive Metering Proceeding.[18] Pending resolution in that proceeding, the procedures offered and proposed by the utilities in this proceeding are accepted,

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[18] Case 00-E-0165, In the Matter of Competitive Metering.

except that we direct the utilities to offer ESCOs' customers access to any load or rate analysis products provided to full-service customers at identical prices, terms, and conditions, on a non-discriminatory basis.

Marketing and Outreach Program Guidelines

Parties' Comments

Customer outreach seminars, say E Cubed and Joint Supporters, should connect customers to a variety of energy service providers, including ESCOs, demand-response providers, equipment manufacturers (such as distributed generation, heating, ventilating, and air conditioning), installers, and engineering firms. Entities such as the New York Energy Consumers Council and Joint Supporters, they continue, should also be invited.

New York Energy Consumers Council urges us to require utilities to provide sample billing of the impact of hourly pricing on actual customer loads for at least one year prior to implementing hourly pricing rates. Greater New York Hospital Association asks us to ensure that Con Edison gives customers an opportunity to meet with utility representatives, prior to the implementation of the tariff, to review detailed questions about application of the tariff to their specific facilities. Greater New York Hospital Association questions the timing for completion of Con Edison's Web tool revisions that are needed to model hourly prices.

According to Empire State Development, uniform energy analysis software that tracks energy consumption and market pricing across New York is needed. It further recommends immediate implementation of programs to train customers on use of these products.

Discussion

Customer outreach and education is crucial to the success of hourly pricing. The utilities are directed to include all interested parties in their outreach and education efforts. We expect utilities to integrate the unique services offered by each of the parties in a coordinated outreach and education package that best assures each eligible customer's awareness and understanding of hourly pricing, as well as the specialized load analysis, load management and energy services that are available to help these customers manage their transition to hourly pricing.

In the 2005 Hourly Pricing Order, utilities were asked to extend customer-specific outreach efforts to those customers that are potentially unable to respond to hourly pricing. In their filings, the utilities claim they have or will make such efforts on behalf of specific customers.

Customers also need access to as much interval load data as possible to aid them in making informed decisions about hourly pricing. Con Edison and Orange & Rockland, with interval meters in place for customers qualifying for hourly pricing, claim that they are able to provide all eligible customers with at least one year's worth of data for analysis of potential rate impacts. National Grid expects to have its interval meters installed by May 2006; this will allow for time to give customers load information about their usage during the summer capability period. At NYSEG and RG&E, only a limited number of additional interval meters need be installed. They shall proceed to install appropriate meters for mandatory hourly pricing customers that lack them and begin providing those customers with hourly load and shadow pricing information commencing as of July 1, 2006, or as the Secretary may require.

Although development of a consistent energy analysis software platform could be beneficial, each utility claims it has already developed its own energy analysis software. Identification or selection of a preferred software application may stifle further innovative software applications. It is too early in the development of these energy management tools and the market for energy management services to choose one specific standard software for statewide application.[19] Standardization at this nascent stage of program development raises the risk of mistakes that may be expensive or difficult to correct later.

Real-Time Market Prices

Parties' Comments

Empire State Development suggests that we authorize utility companies to offer a real-time market price product in addition to the day-ahead prices.

Discussion

Although there may be some advantages to basing hourly prices on the real-time market, there are also a number of disadvantages. Using real-time market prices as a basis for hourly pricing may not allow customers time to plan or respond to prices, an opportunity afforded by using day-ahead prices. It is not necessary at this time to encumber utilities with the additional responsibilities of developing real-time hourly pricing offers. A utility focus on efforts to educate customers about day-ahead hourly prices and facilitate connections with service providers, to advise and assist customers in finding methods of responding to hourly prices, will better assist the State in achieving its public energy policy objectives. Moreover, ESCOs can offer a real-time market price product, if desired by customers.

[19] For similar reasons, adoption of a statewide EDI protocol for service providers would not be helpful in advancing hourly pricing at this time.

Training Regarding Demand Response

Parties' Comments

Greater NY Hospital Association suggests design of a pilot program, with its assistance as well as that of NYSERDA and Con Edison prior to application of hourly pricing to hospitals, to determine the results for hospitals and develop proposals to shift load in response to prices. New York Energy Consumers Counsel notes that customers must be well-trained and fully capable of adjusting their loads in response to the dual impacts of their own load conditions and market conditions.

Discussion

Such education and training programs are, in fact, offered by the utilities as part of their outreach efforts. We urge Staff, NYSERDA, and the NYISO to continue their collaborative efforts to educate consumers about demand response opportunities. For reasons discussed in the Exemptions section below, it is not necessary to establish a special pilot training program for hospitals. These customers are encouraged to speak with NYSERDA about funding for assistance with load analysis and possible demand response investments.

Cost Recovery Issues

Parties' Comments

National Grid requests authority to use System Benefits Charge funds to pay for the installation costs of the interval meters required to implement hourly pricing for its target group of customers. As an alternative to the use of System Benefits Charge funds, National Grid proposes to recover metering costs through an incremental customer charge applicable to customers taking hourly pricing service.

Select Energy advocates the collection of any program implementation and outreach and education costs associated with hourly pricing through electric commodity rates. It claims that flowing such costs through commodity clauses would level the playing field between utilities and ESCOs. ESCOs, it asserts, have no choice but to collect similar costs within commodity prices through bills for the commodity services they provide.

The Small Customer Marketer Coalition argues that the initial incremental costs associated with the implementation of hourly pricing should be borne by all ratepayers and recovered through delivery rates. It asserts that the charges associated with meters, installation of meters, and related services must be market-based so as to ensure that these services and products can be offered by ESCOs, Meter Data Service Providers, and Meter Service Providers on a competitive basis.

Discussion

Use of System Benefits Charge funds to defray or offset meter costs associated with the implementation of hourly pricing would be inappropriate. System Benefits Charge funds are targeted to customers who would not participate in an energy efficiency program in the absence of System Benefits Charge funding. Customers here, however, are required to participate in hourly pricing under an applicable tariff. Accordingly, National Grid’s request to deploy System Benefits Charge funds for this purpose is denied.

In contrast, use of the System Benefits Charge to fund programs that support and assist new hourly pricing customers in evaluating their hourly load profiles and in the selection of viable options for responding to the hourly prices is a legitimate use of those funds and should be encouraged. Customers who take steps to participate in those programs, which will benefit them once they make the effort, do so voluntarily, and so should be eligible for System Benefits Charge assistance.

National Grid's proposal to recover metering costs through an incremental metering charge is an appropriate rate mechanism because it recovers the cost over time from those customers requiring installation of an interval meter in order to participate in hourly pricing. The NYSEG and RG&E proposal for recovery of incremental metering costs, including the cost of metering equipment and installation of remote meter reading capability, through a one-time lump sum charge would unnecessarily burden customers requiring the installation of a meter with substantial implementation costs. Accordingly, we direct NYSEG and RG&E to follow National Grid's approach, and recover incremental metering costs from the affected customers over time in conformance with normal amortization periods. Those customers subject to mandatory hourly pricing that have previously purchased the meters and associated equipment required for the administration of hourly pricing are excluded from paying incremental metering charges.

The utilities are authorized to recover the remaining implementation and outreach and education costs that are unrelated to meter installation and activation from all ratepayers through delivery rates. An important goal attending the implementation of hourly pricing is the reduction of peak load and peak prices. These reductions will ultimately benefit all customers, including ESCO customers. Therefore, it is appropriate that all customers share some portion of the program's implementation costs.

While it can be argued that implementation costs for hourly pricing are related to commodity and should, therefore, be collected through a commodity charge, these costs do not vary hourly or with the quantity of kWhs consumed and are not expected to impose continuing costs on utilities over the long term. As a result, the costs are appropriately recovered through delivery rates.

Finally, the outreach and education efforts conducted by utilities in conjunction with hourly pricing should not be expected to substitute for outreach and education efforts the ESCOs conduct. Rather, the outreach and education roles of the utilities, NYSERDA, and the ESCOs are intended to compliment and mutually support each other.

Exemptions for Certain Customers

Parties' Comments

Three hourly pricing exemption proposals were submitted. First, the Greater NY Hospital Association requests an exemption from hourly pricing service for hospitals, claiming that the approximately 20 medical institutions eligible for Con Edison's mandatory hourly pricing service will have little or no opportunity to control their energy costs, if they are subjected to hourly commodity charges.

Second, NYSEG and RG&E assert that customers participating in their farm waste and wind electric generating programs should be exempt from hourly pricing. They provide no rationale for this exemption.

Third, the utilities' filings, with the exception of National Grid's, propose exemptions for customers that are receiving New York Power Authority (NYPA) power and/or other Economic Development power incentives for all or any portion of their total electricity requirements. The proposed exemption would apply to customers served under such economic development rates when hourly pricing service takes effect.

Empire State Development disagrees with the proposals to completely exempt from hourly pricing those customers receiving economic development incentives for a portion of their load. It recommends that the portion of each customer's load that is not within the scope of an economic development rate incentive become eligible to receive hourly day-ahead pricing.

Discussion

Hospitals will not be exempted from the hourly pricing program. Exposure to hourly prices may lead those customers to long-run adaptations that are beneficial to the electric system. Hourly pricing also yields more equitable customer bills than does the existing, less exact, average energy rate. It is warranted on that basis even for customers that do not directly react to the hourly price signals.

Moreover, Con Edison has performed a focused bill impact analysis for each hospital account it believes would be subject to mandatory hourly pricing. The utility developed both annual and cumulative customer bill comparisons for the three most recent calendar years (2003 - 2005) for 16 full service hospital customer accounts. The company used hourly loads for specific hospital customer accounts in calendar years 2003, 2004, and 2005 and the corresponding NYISO zonal day-ahead hourly market prices. The hourly load and price integrated commodity bills developed for each of the hospital customers were then compared to the corresponding equivalent actual Market Supply Charge-based commodity bills received by these customers. The results of the company's analysis indicate that of the 16 hospital accounts, 14 would have paid less for commodity services over the three-year period if billed on the basis of hourly prices and loads. The two accounts that would have paid more under hourly pricing were the smallest accounts with the lowest bills in the group.

It is important to recognize that these bill comparisons do not reflect a response on the part of these customers to the hourly prices. Even without any reconfiguring of their loads, the vast majority of these hospital customers would have been better off with hourly pricing. In addition, when given the opportunity to see the hourly prices a day in advance and to manage discretionary loads in response to these prices, these customers could realize more savings opportunities. The concerns of the Hospital Association's members, however, are understandable because hourly pricing is new to them and they are uncertain of their abilities to successfully manage their responses to the new price signals. We therefore direct Staff to work with NYSERDA and Con Edison to explore opportunities for bill savings for these customers, and for other similarly-situated not-for-profit institutions.

With respect to the NYSEG and RG&E request to exempt customers in their farm waste and wind generating programs, they have not demonstrated that these customers would be affected differently from other customers who are similarly situated, but for participation in these programs. The companies are directed to delete the exemption from their tariffs, unless they provide a rationale and bill impact analysis demonstrating the need to exempt these customers sufficiently in advance of the effectuation of their hourly pricing tariffs for us to decide differently before that implementation. Absent such a showing, we will not exempt these customers.

Regarding the utility proposals to exempt all partial and full-requirements NYPA and other economic development incentive customers from mandatory hourly pricing,[20] we prefer to reserve final judgment on the issue until the potential impacts of hourly pricing for these customers is better understood. Even though it may be inappropriate to impose hourly pricing on these customers at this time, it also may not be appropriate to completely deny them access to hourly pricing should some of these customers determine that hourly pricing would help, rather

[20] It may be appropriate to treat these customers like ESCO customers requiring the reporting of hourly loads to the NYISO notwithstanding the actual pricing of the commodity delivered to them.

than hinder, them in reaching their economic development objectives. Access to hourly pricing may be especially useful to these customers' for any partial requirements load outside the scope of their economic development incentives.

Accordingly, we permit Con Edison and O&R to tariff the economic development customer exemptions they propose. The utilities, however, are directed to conduct thorough assessments of the implications of hourly pricing, and to file, by August 1, 2006, studies detailing the outcome of their assessments. While the exempted economic development customers will not be required to go onto hourly pricing at this time, we also require Con Edison and O&R to allow them to opt to take hourly prices if they so choose for their partial requirements load not priced at economic development rates.

NYSEG and RG&E shall also conduct assessments of hourly pricing impacts on their economic development customers, and file studies by August 1, 2006 detailing the outcome of their assessments and justifying the exemptions they propose to tariff. This will allow us to decide which exemptions are appropriate before the tariffs take effect on January 1, 2007.

Although National Grid did not propose exemptions in its draft tariff, it is similarly directed to conduct an assessment of the impacts of hourly pricing on its economic development customers. It shall file a study detailing the outcome of the assessments, and proposing any needed exemptions by July 1, 2006, enabling us to adopt appropriate exemptions, if any, before its tariffs take effect on September 1, 2006.

Multi-Tenant Buildings Issues

Parties' Comments

Cooperative Coalition to Prevent Blackouts suggests that mandating real-time pricing for buildings must be consistent with our consumer protection policies that require residents to consent to time-of-use rates. It objects, however, that this requirement could allow high peak users to opt out of the program and undermine its effectiveness. Cooperative Coalition to Prevent Blackouts also comments that consideration should be given to conducting company-sponsored seminars on hourly pricing for apartment residents.

Discussion

The focus of this proceeding is large buildings, including multiple family dwellings, not the end-use residential units served within the building. A building's overall master-metered load is the load that would be subject to hourly integrated pricing, assuming the master-metered load meets the size criteria for qualification for transfer to hourly pricing(1,500 kW for Con Edison). The policies associated with appropriate pricing and billing for the sub-metered tenant loads within the building, and their implementation, are outside the context of this mandatory hourly pricing proceeding.

The comments of the Cooperative Coalition to Prevent Blackouts regarding seminars are more pertinent to the evaluation and promotion of special pilot projects that are on-going and under consideration within the City of New York. These projects are administered in conjunction with the Con Edison Voluntary (Rider M) Hourly Pricing Program. The issues raised by Cooperative Coalition to Prevent Blackouts are best taken up in other forums already in place for that purpose rather than in this mandatory hourly pricing proceeding.[21]

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[21] See Case 04-E-1335, Cooperative Coalition to Prevent Blackouts, Declaratory Ruling on the Submetering of Residential Customers at Time of Use Rates (issued June 8, 2005).

Bill Verification by Customers and Methods for Dealing With Missing Data

Parties' Comments

Consumer Power Advocates warns that moving to hourly pricing will increase the difficulty customers experience when attempting to verify utility bills or address meter data problems.

Discussion

Utilities have procedures in place to deal with these billing and metering accuracy issues. It is unclear that changes to the rate structure will necessarily change these procedures. At the time of the six-month reports described below, utilities are directed to report on these issues and suggest any necessary improvements.

Clarification of Con Edison Term Commitment

Parties' Comments

Consumer Power Advocates points out that the Con Edison tariff requires customers who take the hourly pricing service to remain on the service for at least one year. It urges us to clarify that customers on hourly pricing have the option to leave the utility for an ESCO at any time.

Discussion

The requirement to remain with the voluntary RTP tariff for at least one year was put in place to prevent voluntary hourly pricing customers from leaving and then returning to the tariff in order to arbitrage the difference between hourly prices and Con Edison's Market Supply Charge rates. That this form of restriction is applicable to participants in voluntary RTP programs does not justify its use in mandatory hourly pricing programs. Affording customers the opportunity to select ESCO service options is a more important consideration under a mandatory program. Utilities are therefore directed to explicitly state in tariffs that mandatory hourly pricing customers are free to select ESCO commodity service at any time.

Reporting and Evaluation

Discussion

Early customer outreach and education is critical to the success of hourly pricing. Another important element is on-going dialogue over and evaluations of the program. Accordingly, the utilities, working with Staff, are directed to develop comprehensive evaluation plans.

These plans will delineate the evaluation methodologies, work plans and timetables needed to assess the programs from multiple perspectives, including those of consumers and the electric industry, as well as the impact on New York's electricity demand profile and the future potential for mandatory hourly pricing. Utilities shall submit evaluation plans within 60 days of the effective date of this Order and reports reflecting the results of the evaluation effort by February 1, 2008.

As part of the evaluation effort, we direct each utility to survey each of its eligible hourly pricing customers after the first six months following each tariff’s implementation. We also direct each utility to provide a report to Staff 60 days thereafter summarizing the results of those surveys as well as describing the utility's experience in implementing hourly pricing and issues raised by other parties. The utilities should suggest improvement opportunities and identify issues requiring further analysis. Staff will provide assistance to the utilities in developing these surveys and the evaluation design.

One of our primary goals in implementing hourly pricing is to attain demand response from customers by providing them with more accurate and cost-based prices. Some customers may search for more stable pricing offers from ESCOs. To properly assess the extent to which eligible customers, collectively, may potentially respond to hourly pricing, it is important to know the extent to which eligible customers with alternative suppliers obtain hourly price signals from their ESCOs. Therefore, Staff should work with ESCOs to obtain information that can be used to assess the extent to which ESCOs provide hourly price signals to these customers.

The utilities are expected to provide information estimating the amount of demand response or load reductions achieved as a result of the implementation of hourly pricing. The utilities should begin collecting data from the start of the program to perform this analysis and, in so doing, collaborate with each other, NYSERDA and other parties in designing the data acquisition programs needed for the analysis and evaluation of hourly pricing. This effort should also include an assessment of the prospects for expanding current programs.

Finally, within two years, Staff should submit a status report that describes the utilities' experience with implementing hourly pricing, including issues the utility has faced and any ESCO or customer complaints. The report should also identify lessons learned or suggested improvement opportunities as well as describe the extent to which further standardization or expansion of the hourly pricing program is possible or practical.

Other Issues

NYSEG's Filing

NYSEG states that in addition to establishing a new service classification, it has removed its voluntary real-time pricing program for SC-2 and SC-3 customers from its tariff.

Discussion

NYSEG provides no justification for this change. SC-2 customers are connected at the secondary level of the distribution system and have peak demands between 5 and 500 KW. SC-3 customers are connected at the sub-transmission or primary levels of the distribution system and have peak demands between 25 and 500 KW. As we stated in our Voluntary Expansion Order,[22] although these customers are smaller than those converted to mandatory hourly pricing, they should be afforded the option of transferring voluntarily to hourly pricing. NYSEG’s proposal runs counter to that policy objective, and it is rejected.

Moreover, while NYSEG's main focus at this time should be on educating and assisting customers converting to mandatory hourly pricing, SC-2 and SC-3 customers should be made aware of the voluntary hourly pricing option, perhaps through targeted outreach and education programs. This would allow ESCOs to seek out those customers who would benefit from hourly pricing and encourage them to take advantage of ESCO offerings.

Con Edison's Filing

Con Edison notes that it intends to collect through the Market Adjustment Clause any lost electric delivery revenue resulting from mandatory or voluntary hourly pricing.

Discussion

Calculating lost delivery revenues is often subject to analytical disputes and controversy. The scope of the utilities’ mandatory hourly pricing programs significantly increases the magnitude of this concern. Therefore, any utility seeking to recover this type of lost revenue must, prior to imposing any such charge on ratepayers, obtain our approval, upon a petition that sets forth a thorough presentation of the calculation of any alleged lost revenues and a convincing

[22] October 30, 2003 Order.

demonstration that they should be recovered from other ratepayers.

CONCLUSION

It is in the public interest to implement accurate price signals which will reduce peak usage, in order to mitigate peak period prices, increase peak period reliability, encourage wholesale market power mitigation, and reduce New York State's dependence on natural gas-fueled generation. The steps we take in this Order will enable customers to benefit from shifting load to off-peak, less expensive time periods, and for all ratepayers to realize the benefits of reducing the electric system’s peak period demand.

The Commission orders:

1. The petitions for rehearing and/or clarification filed by New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation, Multiple Intervenors, and Consumer Power Advocates are denied.

2. The petition for rehearing and/or clarification of National Grid is approved in part and rejected in part to the extent discussed in the body of this Order.

3. National Grid, New York State Electric & Gas, Rochester Gas & Electric, Consolidated Edison Company of New York, Inc., and Orange & Rockland Utilities, Inc. shall:

a) include in their hourly pricing tariffs, discussed below in Ordering Clause Nos. 4 - 7, their method for deriving retail hourly prices from New York Independent System Operator zonal wholesale day-ahead prices, in conformance with the discussion in the body of this Order;

b) conduct the assessment of the impact of hourly pricing on customers receiving Economic Development incentive rates and file a report the on the results within the deadlines described in the body of this Order or as the Secretary may require; and,

c) survey new hourly pricing customers after the first six months of program implementation and submit a report to the Director of the Office of Electricity and the Environment within 60 days thereafter, or as the Secretary may require, summarizing short-term results, customer reactions, party complaints, issues and areas for improvement or action, as discussed in the body of this Order.

4. Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities are directed to file tariff amendments to implement mandatory hourly pricing in accordance with the draft tariff provisions previously filed in this proceeding and the discussion in the body of this Order. Such tariff amendments shall be filed on not less than one day's notice to become effective, on a temporary basis, on May 1, 2006.

5. National Grid is directed to file tariff amendments to implement mandatory hourly pricing for its Service Classification No. 3 customers with demands at or above 500 kW in accordance with the draft tariff provisions previously filed in this proceeding and the discussion in the body of this Order. The tariff amendments shall be filed on not less than 30 days' notice to become effective on a temporary basis on September 1, 2006. With the filing, National Grid shall submit a proposed schedule for the eventual transfer to hourly pricing of its remaining Service Classification No. 3 customers with demands below 500 kW.

6. New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation are directed to file tariff amendments to implement mandatory hourly pricing for their current mandatory time-of-use customers with demands at or above 1,000 kW, in accordance with the draft tariff provisions previously filed in this proceeding and the discussion in the body of this Order. The tariff amendments shall be filed on not less than 30 days' notice to become effective on a temporary basis on January 1, 2007, commensurate with initial actual customer billings at hourly prices. With their filings, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation shall submit a proposed schedule for the eventual transfer to hourly pricing of their remaining mandatory time-of-use customers with demands less than 1,000 kW.

7. New York State Electric & Gas Corporation's and Rochester Gas and Electric Corporation's mandatory hourly pricing tariffs shall reflect the recovery of meter costs from hourly pricing customers requiring the installation of new meters through a monthly incremental customer or metering charge that recovers those costs over time from those customers requiring the installation of interval meters in order to participate in hourly pricing.

8. Department of Public Service Staff shall submit, within two years following issuance of this Order, the Report addressing the issues described in the body of this Order.

9. National Grid's request for authorization to fund meter installation costs from the System Benefit Charge is denied.

10. This proceeding is continued.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary

DRAFT TARIFF AND OUTREACH AND EDUCATION PLANS FILED

National Grid Tariff Filing

National Grid's SC-3 includes 4,730 medium-sized commercial and industrial customers (comprising 2100 MW of load) with maximum billing demand ranging from 100-to-1999 kW. National Grid proposes to implement hourly pricing for SC-3 customers with billing demand equal to or greater than 500 kW, which includes about 721 customers (comprising 908 MW of load). Of the 721 eligible customers, 457 or 63% (totaling 500 MW of load) take commodity service from retail access providers, leaving approximately 264 customers (totaling 400 MW of load) eligible for transfer to hourly pricing service. Upon demonstration that the benefits of hourly pricing outweigh the costs to its smaller customers, the company proposes to phase-in hourly pricing for the remainder of its SC-3 customers (3,800).

Under its proposed timeframe, customers would be able to access their hourly load data on June 1, 2006 with billings at hourly prices commencing September 1, 2006. To implement hourly pricing, National Grid will install new digital wireless meters for its customers at a total up-front cost of about $1.9 million or approximately $2,100 per meter and an on-going incremental operating cost of about $200,000 per year. The new meters would enable customers to obtain near real-time access to their metered load data.

National Grid proposes to implement outreach and education efforts to prepare customers for hourly pricing at a cost of about $175,000. Its Outreach and Education Plan consists of several components: analysis of customer data; development and distribution of customer education materials; organization of group customer meetings; training of account managers and National Grid staff; conducting one–on–one customer meetings; and marketing of data analysis tools. National Grid's data analysis tool, called "Energy Check Online," allows customers to view and evaluate their hourly load data for a fee of $50 per month.[1]

National Grid compared the actual commodity bills of SC-3 customers with loads greater than 500 kW at the lowest, average, and highest proportion of on-peak usage at each voltage level over the past year to estimated bills under hourly pricing rates. The monthly swings were generally in the 2-to-4% range, with the overall impact on annual customer commodity bills for this group of customers generally favorable and less than 2%. This analysis assumes that customers continue to use a high proportion of electricity during high-priced hours even with an incentive to shift usage to lower priced periods under the hourly pricing billing method.

Rochester Gas and Electric (RG&E)

RG&E's large time-of-use service class (SC-8) includes approximately 780 customers with a maximum billing demand of 300kW and above. RG&E proposes to introduce mandatory hourly pricing with the establishment of a new service classification, SC-15, Large General Use, for customers with demands of 1,000 kW and above in any two of the previous twelve months. The new SC-15, as proposed, would target approximately 171 customers (comprising 485 MW of load), of which 121 or 71% (totaling 348 MW of load) take service from a retail access provider, leaving approximately 50 customers (comprising 137 MW of load) for transfer to hourly pricing. RG&E proposes that the new hourly pricing service class would incorporate many of the terms and conditions that apply to the company’s SC-8 customers, including the delivery rates.

[1] The company also offers "Read Only Access" service for $170 per year.

SC-15 customers would be required to have interval metering with telecommunication access. The company would provide, at the customer's expense, the required metering and assist the customer with the process of obtaining the required telecommunication equipment. The company proposes that it install and maintain the metering equipment and that its customers pay ongoing costs of the telecommunication equipment. As part of its Outreach and Education Plan, the company would make customers aware of its competitive metering options.

RG&E would provide all customers subject to hourly pricing with information about the program and the potential benefits of shifting load from periods of peak demand and high prices to less expensive time periods. RG&E proposes that customers with demands of 1,000 kilowatts or more served by an ESCO be provided program details in writing and notified that, if they return to RG&E supply service, they will be required to purchase supply at day-ahead hourly prices.

Group or individual meetings would be held with customers purchasing supply from RG&E. These customers would be provided information on hourly pricing, options for reducing their bills, metering requirements and options, tools for measuring usage, and other supply options.

RG&E would provide customers with options for obtaining interval meter data and various tools to measure energy usage. These options include the following:

- Customers could purchase pulse output from the utility meter and collect real-time usage data via an energy management system or recording device.

- Customers can subscribe to the utility's Energy Profiler Online service. Energy Profiler Online provides interval meter data in tabular and graphical formats. A Real-Time Pricing module, which provides day-ahead prices and allows the user to run "what if" scenarios to model the price impact of curtailing or shifting load, is available. The cost of this program to customers is $60 per month.

- Customers could choose to purchase services from a competitive meter service supplier.

RG&E's filing proposes that customers receiving economic development incentives, as of the effective date of SC-15, should be exempt from the mandatory hourly pricing option and remain in SC-8 until their incentive ends. The company requests that this exemption apply to customers that receive incentives on their total load as well as to customers receiving incentives on only a portion of their load. RG&E further requests that customers participating in its Power for Jobs SC-12 program be exempt from the mandatory hourly pricing option and remain in SC-12 until the end of their participation in the program. Finally, RG&E requests that customers participating in its Farm Waste Electric Generating System and Wind Electric Generating System programs be exempt from the mandatory hourly pricing option and remain in SC-8 until the end of their participation in the program.

New York State Electric and Gas (NYSEG)

NYSEG's Large Time-of-Use Service Class (SC-7) includes approximately 600 customers whose maximum billing demands are 500kW and above. NYSEG proposes to introduce mandatory hourly pricing with the creation of a new service classification, SC-4, Large General Use with demand of 1,000 kW and above in any two of the previous 12 months. SC-4 would target approximately 244 customers (comprising 750 MW of load), of which about 145, or 59% (totaling 385 MW of load) currently take service from a retail access provider, leaving about 100 customers (totaling 365 MW of load) eligible for hourly pricing service. The new hourly pricing service class incorporates many of the terms and conditions that apply to the company's current SC-7 customers, including the delivery rates.

NYSEG proposes that billing under hourly pricing will commence January 1, 2007. To help prepare customers for mandatory hourly pricing, NYSEG proposes showing eligible SC-4 customers their hourly load date on July 1, 2006. The company does not propose any timeline to phase-in the remainder of the mandatory time-of-use, SC-7 customers.

SC-4 customers are required to have an interval meter with telecommunication access. NYSEG proposes to provide, at the customer's expense, the required meter and assist the customer with the process of obtaining the required telecommunication equipment. NYSEG would install and maintain the metering equipment; and customers would pay the on-going costs of the telecommunication equipment.

As part of its Outreach and Education Plan, the company will make the customer aware of competitive metering options and provide information about the program and the potential benefits of shifting load from periods of peak demand and high prices to less expensive time periods. Customers with demands of 1,000 kilowatts or more served by an ESCO will be provided program details in writing and notified that, if they return to NYSEG supply service, they will be required to purchase supply at day-ahead hourly prices.

Group or individual meetings would be held with customers purchasing supply from NYSEG. These customers will be provided information on hourly pricing methods reduce their bills, metering requirements and options, tools for measuring usage, and other supply options.

Customers will have several options for obtaining interval meter data and various tools to measure their performance. These options include the following:

- Customers can purchase pulse output from the utility meter and collect real-time usage data via an energy management system or recording device.

- Customers can subscribe to the utility’s Energy Profiler Online service. Energy Profiler Online provides interval meter data in table and graphical formats. A Real-Time Pricing module is available which provides day-ahead prices and allows the user to run “what if” scenarios to model the price impact of curtailing or shifting load. The cost of this program for customers is $60 per month.

- Customers could choose to purchase services from a competitive meter service provider.

NYSEG requests that customers receiving any economic development incentives, including special rates provided under New York Power Authority programs, as of the effective date of SC-4, be exempt from hourly pricing and remain in SC-7 until their incentive ends. The company would like this exemption to apply to customers that receive incentives on their total load as well as customers that receive incentives on only a portion of their load.

NYSEG further requests that customers participating in the company’s Power for Jobs program be exempt from the mandatory hourly pricing option and remain in SC-7, until the end of their participation in that program. The company seeks approval of its request that customers participating in its Farm Waste Electric Generating System and Wind Electric Generating System programs be exempt from the mandatory hourly pricing option and remain in SC-7 until the end of their participation in the program. Finally, NYSEG's draft tariff requests removal of the SC-2 and SC-3 customers from its voluntary real-time pricing program.

Orange and Rockland

Under Orange & Rockland full service, electric customers who receive electric service under SC-9 (Commercial Time of Use), SC-22 (Industrial Time of Use) and SC-25 (Standby Service), Rates 3 and 4 would become subject to hourly pricing. Currently, 54 customers are eligible to take service under SC-9, of which 26 customers are taking service from ESCOs. Similarly, 27 SC-22 customers are eligible to take service, of which 12 customers are taking service from ESCOs. There are no customers taking service under SC-25. The 81 eligible customers account for 189 MW of load, with 38 customers taking service from ESCOs accounting for about 72 MW of load.

The company expects that its tariffs will take effect May 1, 2006, the beginning of the summer capability period for electricity markets. Orange & Rockland is designing its outreach and education program for hourly pricing customers and ESCOs with this date in mind, having already held seminars in February and March of this year. The eligible customers already have interval metering in place. The company anticipates that installation of ten customer telephone lines would be needed for obtaining interval usage data at a cost of $15,000.

Orange & Rockland will build on the outreach and education program developed for Orange & Rockland's voluntary hourly pricing program that we previously approved. The voluntary program would be expanded to include outreach and education efforts dedicated to hourly pricing customers. The incremental cost beyond what the Commission approved for Orange & Rockland's voluntary program is approximately $33,100.

In approving Orange & Rockland's voluntary hourly pricing program, including the company’s marketing program, the Commission permitted the company to recover the costs of that program through its Market Supply Charge. Orange and Rockland states that it assumes that the voluntary program approval is applicable to the mandatory program and has begun to take steps to implement the September 23, 2005 Hourly Pricing Order and stated that it believes that it has already received authorization to recover the costs of such implementation.

Orange & Rockland currently offers voluntary hourly pricing under Rider M in its electric tariff. There are no customers currently taking service under Rider M. Under Rider M, a customer is subject to the rates and charges of the customer’s applicable Service Classification, except the Market Supply Charge. Rider M customers, instead of paying the Market Supply Charge, are billed an hourly price equal to the NYISO zonal day-ahead hourly price, adjusted for losses, plus amounts for non-energy components of electric power supply (e.g., capacity, ancillary services, and any other non-energy costs) equal to the amounts for these charges included in the forecast component of the otherwise applicable Market Supply Charge.

In implementing hourly pricing, Orange & Rockland has added a section to General Information Section No. 14, Market Supply Charge, of its electric tariff. This new section entitled “Mandatory Day-Ahead Hourly Pricing” describes the applicability of mandatory day-ahead hourly pricing and describes the day-ahead pricing charges. In implementing mandatory day-ahead hourly pricing, Orange & Rockland has established a separate capacity charge, to be assessed on each customer’s capacity obligation, rather than including a capacity component in the hourly charges. This change applies also to Rider M. Rider M has been changed to refer to General Information Section No. 14 for details regarding the determination of hourly prices.

Central Hudson Gas & Electric Corporation

At the time of the Central Hudson's hourly pricing filing on November 1, 2004, 62 customers were taking service under SC-3 and SC-4, with three of 41 SC-3 customers and four of 21 SC-13 customers participating in its Retail Access Program. As of November 1, 2005, 20 of the 41 SC-3 customers and nine of the 21 SC-13 customers are participating in the company's Retail Access Program.

On January 30, 2004, Central Hudson filed with us an integrated education and outreach plan designed to raise the overall awareness of its largest customers to the availability of Hourly Pricing, as well as the availability of various demand response programs. This plan included, among other items, the provision of information to customers via direct mail, detailed training for the company's key account representatives and subsequent meetings with specific customers. While much of the plan has been implemented, the mandatory Hourly Pricing proposal for SC-3 and SC-13, as detailed below, necessitated restructuring of the plan to address additional features, including the provision of the Energy Manager software.

SC-3 & SC-13

The Energy Manager software allows customers to view their hourly load data on a 24-hour lag, as well as day-ahead prices utilized for billing, through a secure section of the company's Web site. The software also allows customers to perform various, customized load comparisons. Part of the original bid process entailed the completion of a telephone survey of all customers with access to the software as well as preparation of a written report of survey findings.[2] In addition to surveying customers on the content and functionality of the software, the survey intended to determine how many of the customers who purchase their energy requirements from an alternate supplier pay prices that are indexed to the NYISO day-ahead market price. Central Hudson suggests that any additional outreach and education efforts related to hourly pricing directed to SC-3 and SC-13 customers should take the form of the specialized market expo that was conducted in April 2005, where customers receive additional Energy Manager training and have an opportunity to again meet with retail suppliers. Such additional efforts, the company believes, should be tailored to specifically address the survey results. The company does not, therefore, set forth a detailed plan for additional formal outreach and education venues at this time, but continues to maintain a high level of customer support.

<u>SC-2</u>

While hourly pricing continues to be a voluntary pricing option for SC-2 customers, to date there has been no participation. Unlike SC-3 and SC-13, which require interval metering, SC-2 has no such requirement. As a result, SC-2 customers would be required to install an interval meter and phone line for hourly pricing participation, and would be billed at a higher monthly customer charge.

As part of its original outreach efforts during May 2004, Central Hudson sent letters to all customers with loads in excess of 2,000 kW reminding them of the availability of hourly

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[2] Due to an extremely limited number of customer responses to its initial survey, Central Hudson has gone back to these customers in an effort to encourage more customers to respond to the survey. For this reason, the Report is still in progress as of this writing.

pricing and demand response programs. In addition, the company published an Energy Bulletin that essentially contained the same information, which it distributed to municipal leaders and large customers. In both cases, Central Hudson reminded customers of the availability of funding from NYSERDA to help offset the costs of metering equipment necessary to participate in such programs.

Central Hudson states that the same approach should be taken to remind SC-2 customers of the availability of hourly pricing and demand response programs, with particular emphasis on the availability of NYSERDA funding. In order to reach additional customers, the company will need to lower the load threshold, and proposes to set the threshold at 500 kW, which would result in contact with approximately 125 additional customers. Further, Central Hudson proposes to complete this outreach prior to May 1, 2006 so that customers electing to participate in hourly pricing or enrolling in a demand response program may do so prior to the start of the summer season when demand shifts or usage reductions are more likely to produce material benefits. Finally, based on experience gained when several SC-13 customers participated in the voluntary hourly pricing program, the company proposes to modify tariff provisions to require SC-2 customers electing to participate in the voluntary hourly pricing program to enroll in the program for six consecutive months. The company asserts that this change is required to ensure that customers utilize hourly pricing as intended for shifting/reducing load and to prevent customers from using hourly pricing as a financial “gaming” tool.

Consolidated Edison Company (Con Edison)

According to Con Edison, it does not need to make substantial changes to its electric tariff in order to make hourly pricing applicable to eligible time of day customers. All Con Edison full service electric customers who receive electric service subject to time-of-day pricing in SC-4 (large redistribution), SC-5 (traction), SC-8 (multiple dwelling – redistribution), SC-9 (large general service), SC-12 (multiple dwelling–space heating), and SC-13 (high tension – housing developments) and are otherwise eligible under Rider M (voluntary hourly pricing tariff) will become subject to hourly pricing. The time of day customers are those customers that had a maximum demand greater than 1500 kW in any annual period. These customers are already treated as a stand-alone rate class; accordingly, there would be no impact on customers remaining in the above service classes. There are currently approximately 730 time-of-day customers, approximately 180 of which are full service and approximately 140 (representing approximately three percent of system peak load) are eligible, at this time, for hourly pricing.

Con Edison currently offers voluntary hourly pricing under Rider M in its electric tariff. Customers that take service under this tariff take the same delivery service as customers in the same service classification and pay the same NYISO capacity price. Under Rider M, a customer is subject to the rates and charges of the customer’s applicable service classification, except the energy component of Con Edison's Market Supply Charge. Rider M customers, instead of paying the forecast energy component of the Market Supply Charge, are billed an hourly price equal to the NYISO zonal day-ahead hourly price applicable to its consumption in each hour adjusted for losses. The company adds, for each hour of the month, a unit amount per kilowatt-hour for NYISO ancillary services and the NYPA transmission access charges equal to the average monthly value of these charges in the prior billing period. The company states that it expects that its tariffs will take effect May 1, 2006, the beginning of the summer capability period for electricity markets. Con Edison is designing its outreach and education program for hourly pricing customers with this date in mind. The eligible customers already have interval metering in place. Con Edison will need to make changes to its billing infrastructure to enable the billing of a large number of hourly pricing customers. The estimated incremental cost to upgrade its billing systems is approximately $275,000.

The company plans to build on the outreach and education program developed for its voluntary hourly pricing program that were approved in the August 1, 2005 Order. The previously approved voluntary program would be expanded to include outreach and education efforts dedicated to hourly pricing customers. The incremental cost beyond what was approved for Con Edison's voluntary program is approximately $60,000. The total cost of the voluntary hourly pricing marketing plan approved in the August 1, 2005 Order was $250,000.

Con Edison's outreach and education plan includes: identifying customers that are most impacted by this new tariff; providing customers access to energy analysis software; organizing seminars to educate customers about mandatory hourly prices and resources available to adjust to hourly pricing: and visits from account executives to assist customers with hourly pricing cost analysis.

Con Edison would make available to hourly pricing customers its enhanced Demand Monitoring System to include an hourly pricing component and a cost analysis tool to model hourly pricing rates. Hourly pricing customers will have access to this tool over the Web at no cost. The estimated one-time cost for licensing, programming, and hourly pricing rate modeling is approximately $100,000. On-going costs of Demand Monitoring System subscription are estimated at $15,000, with an additional cost of $170 per customer per year.

Future company-sponsored seminars, modeled on the two held previously this year, would educate customers about the basic concept of hourly pricing, the company's energy management Web tool Demand Monitoring System, retail choice options, and NYSERDA's programs that support price responsive load management. ESCOs, NYSERDA, and Staff will be invited to attend these sessions. Con Edison proposes to train account executives, customer project managers and sales and marketing employees, and customers, using advanced Internet technology. Utilizing Web-based training classrooms; large or small groups can be trained while they sit at their desks. The total estimated cost of the Web-based tools is $100,000.

The Commission previously approved Con Edison's voluntary hourly pricing program, including its marketing program, and permitted the company to recover the costs of that program through its monthly adjustment clause. The company would collect through the monthly adjustment clause any lost electric delivery revenue resulting from hourly pricing service or the voluntary hourly pricing program as well as any other out-of-pocket accounts payable costs incurred in conducting the hourly pricing marketing, outreach and education plan that are not reflected above.

Con Edison proposes (to make clear) in its tariffs that hourly pricing is mandatory for eligible time of day customers. It must change the Market Supply Charge (General Information Section VII-A), Rider M – Voluntary Real Time

Pricing, Special Provision C of SC 14-RA – Standby Rates, the service classes under which hourly pricing will be required, and the Statement of Market Supply Charge and monthly adjustment clause that will be applicable to those service classes.