

2013-2014

**ANNUAL REPORT FISCAL YEAR
2013 - 2014**

NYS Department of Public
Service



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INTRODUCTION

DEPARTMENT OF PUBLIC SERVICE

ANNUAL REPORT (FY 2013-14)

(April 1, 2013-March 31, 2014)

Mission Statement

The primary mission of the New York State Department of Public Service is to ensure affordable, safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business consumers, while protecting the natural environment. The Department also seeks to stimulate effective competitive markets that benefit New York consumers through strategic investments, as well as product and service innovations.



Message from the Chair . . .

As framed in our mission statement, ensuring affordable, safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business consumers, while protecting the natural environment, is our primary goal. Additionally, we seek to stimulate effective competitive markets to benefit New York consumers through strategic investments that will lead to product and service innovations.

As framed by our mission statement, three major themes — ensuring service quality, maintaining affordable rates, and encouraging development of new innovations — provided the foundation on which the Commission based its actions in the 2013-14 Fiscal Year.

Considering the financial impact our utilities have on consumers, it is paramount that the Commission is successful in its mission. Last year, New Yorkers spent a total of \$34.2 billion on utility services, a sizeable figure that includes \$21.9 billion for electricity, \$7.7 billion for natural gas, \$3.5 billion for telephone and cable services, and \$233 million for water used by residential, commercial and industrial customers.

In terms of encouraging innovation, the single most important action that the Commission took in FY13-14 was launching the Reforming the Energy Vision (REV), a groundbreaking effort to transform the regulation of New York's electric distribution utilities. Given its focus on implementing fundamental changes on the production, distribution and consumption of energy, it is widely expected that REV will provide a significant boost in innovation in New York State in the years ahead.

Under the leadership of Governor Andrew M. Cuomo, New York is entering a new phase in its approach to energy policy. Given that many renewable and energy efficiency projects now make economic sense for the private sector to pursue on its own, a top-down mandated approach is outdated.

REV is closely linked to New York's other clean energy and affordability initiatives, such as the New York Green Bank, the Clean Energy Fund, NY-Sun, the On-Bill Recovery Financing Program, Renewable Heat NY, and others. These programs and initiatives are based around the consumer; modernizing the grid will provide cost-savings for the consumer and bring more value and choice.

Many of the goals for New York's energy policies will help the consumer, particularly as it related to value, choice and affordability. Innovative products and better pricing incentives will help save consumers energy and money.

REV places New York in position to undertake a sweeping reform that allows us to secure material economic and environmental benefits for consumers and, at the same time, drive economic development by establishing the scale that supports private investment in existing and innovative new companies that will provide these benefits.

In addition, the Commission closely monitors utility performance during storm events and directs improvements, where needed. In response to new legislation enacted to strengthen the Commission's oversight and enforcement powers making major electric and gas companies more accountable and responsive during emergency storm events, the Commission also initiated an innovate new measurement tool, known as the Scorecard, to oversee emergency response performance and directed utilities to implement network investments designed to improve system resiliency.

In terms of affordable rates, REV seeks to change the way the utility delivery system is used, designed, and priced, to reflect a more distributed environment where unidirectional power flowing from centralized power plants to customer load is no longer the assumed normal. These forthcoming changes will help ensure energy prices remain affordable in New York State.

In FY13-14, the Commission saw an expansion of our oversight responsibilities as a way to ensure all New Yorkers receive the benefit of affordable rates. The 2013 LIPA Reform Act that led to the restructuring of electric utility operations on Long Island gave the Department of Public Service with new oversight responsibilities. The new oversight role provided to the Department will help ensure electricity rates on Long Island are just and reasonable.

Along with the Department's work on Long Island, the Commission took steps in FY13-14 to ensure rates elsewhere remain affordable by adopting a Con Edison rate plan that kept flat electric delivery charges for two years and kept virtually the same gas and steam delivery

charges for three years; and adopting a joint proposal that froze National Grid NY's base delivery rates for 2013 and 2014, increasing funding for low-income ratepayers, and strengthening customer service performance measures.

The Commission also approved the acquisition of Central Hudson Gas & Electric Corporation, which included added commitments to enhance financial protections for ratepayers, such as freezing rates for at least two years, and other community and economic development benefits.

To protect customers in the lower Hudson Valley from a major increase in annual electric bills that would result from the creation of a new capacity zone, the Commission argued that Federal Energy Regulatory Commission should reconsider its decision against a phase in of the new zone and should allow the State to develop other less burdensome strategies.

In the retail market sector, the Commission made it easier for customers to compare prices and to be protected from inappropriate marketing activities, and encouraged the development of energy-related value-added products and service offerings, such as residential energy-management services, demand-response programs and tools, and other types of energy efficiency measures for residential and small commercial customers. The Commission's actions also address a concern about the possible lack of benefits received by low-income customers, and better positions third-party energy suppliers, known as energy service companies (ESCOs), to provide greater financial value to their customers.

On the energy efficiency front, the Commission approved funding to establish the NY Green Bank, proposed by Governor Cuomo in his 2013 State of the State address, to encourage private investment in clean energy projects.

In support of the Governor's initiative to expand the amount of photovoltaic capacity installed and to ensure growth of the solar industry, the Commission authorized modifications to the solar portion of the renewable energy program, and approved additional funding for NY-Sun.

The Commission staff worked to expand the availability of natural gas to enhance customer opportunity to obtain a more economic and clean-heating fuel. Commission staff worked with utilities to better manage, track and fulfill customer requests for natural gas service, and improve utility outreach and education on natural gas conversion. The Commission also directed gas utilities to conduct a risk assessment of their distribution systems, focused primarily on third-party excavations following the installation of gas pipes, and to develop best

practices to educate the public on the importance of reporting gas odors to their local utility and informing local officials about the importance of proper excavation.

The Commission directed National Fuel Gas Distribution Corporation to submit a plan to implement a series of recommendations made after an independent audit of the company's gas business. The recommendations focused on the company's construction program planning processes and operational efficiency. The scope of the audit addressed eight elements associated with the construction program planning cycle, including load forecasting, supply procurement and system planning.

The Commission also adopted the terms of a joint proposal signed by National Grid NY, Department staff, and Queens Gas Consumers that froze base delivery rates for 2013 and 2014, increased funding for low-income ratepayers, strengthened customer service performance measures and modified, among other things, the company's sharing of earnings, revenue requirements and capital expenditures.

Along with the steps the Commission has undertaken in the electric and natural gas area, it will continue to examine major water issues, including the need for United Water New York's proposed development of a new water supply source to satisfy Rockland County's long-term water supply requirements. The water utility proposed construction of a new long-term water supply source to obtain sufficient capacity to supply the county's projected future peak demand for water required for public health and safety.

To ensure the strengthening of telecommunication network resiliency, staff worked to improve the telecommunication companies' emergency response strategies, which included expanding the use of social media to provide restoration information. Staff also worked to improve coordination between wireless and wire-line providers to expedite critical service restoration; enhance communications and coordination with electric utilities on restoration efforts; reviewed portable generator inventories, manpower levels, and outage information to expedite service restorations; and reviewed network architecture plans to improve network resiliency.

Furthermore, in light of the significant changes in the telecommunications industry over the last several decades, the Chair of the Department initiated a comprehensive examination and study of the state of the industry in New York. The comprehensive examination will include an analysis of the varying telecommunications technologies used today, and will explore key policy issues including service quality, consumer protections and affordability. The Commission began an in-depth review of the proposed Comcast with Time Warner Cable merger to determine

whether the proposed transaction will be beneficial for Time Warner customers, as well as the State.

In conclusion, the actions taken by the Commission and Department in FY13-14 will ensure affordable, safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business consumers, while protecting the natural environment.

Audrey Zibelman, Chair

I. Executive Initiatives:

LIPA Reform Act: The LIPA Reform Act, signed into law on July 29, 2013, restructured electric utility operations on Long Island, giving a new electric provider PSEG Long Island, greater responsibility over the system. The new legislation calls for improved customer service; enhanced emergency response and preparation; reduced cost of LIPA's debt; and a freeze on base rates for 2014 and 2015. In addition, the Act provided for oversight by the Department of Public Service (DPS).

As part of the restructuring of utility operations on Long Island, a Department of Public Service Long Island Office (DPS-LI) was opened at 125 East Bethpage Road, Plainview, Nassau County, on January 1, 2014. The regulatory oversight provided by DPS-LI of PSEG Long Island is expected to ensure Long Island electric customers receive better electric service than they had previously.

DPS-LI is responsible for taking and resolving complaints for Long Island electric customers; and working with PSEG-LI and LIPA to ensure accountability and transparency to Long Island electric service.

Further, DPS-LI has new authority to monitor PSEG-LI's performance and compliance with contract terms, and to raise compliance enforcement concerns to LIPA's Board if necessary.

Green Bank Funding: In December 2013, the Commission approved \$165 million to fund the NY Green Bank, a bold, new market-oriented approach to accelerate clean energy deployment, create jobs, and help make New York's communities more resilient and sustainable.



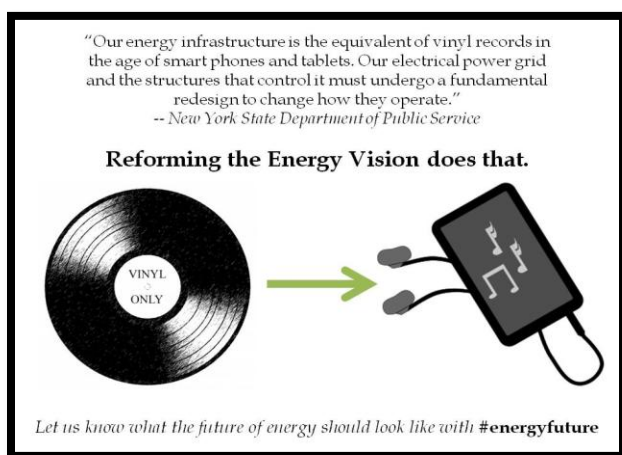
A total of \$210 million in initial funding for NY Green Bank combined \$165 million approved by the PSC and \$45 million from the Regional Greenhouse Gas Initiative (RGGI).

Following PSC approval, the NY Green Bank opened for business in February 2014. Governor Cuomo proposed the creation of a \$1 billion Green Bank in his 2013 State of the State address as the financial engine that will mobilize private investment in clean energy projects.

The Green Bank will work to stimulate private sector financing and accelerate the transition to a more cost-effective, resilient and clean energy system. As part of its oversight function, the PSC will work with the NY Green Bank to ensure financial offerings meet the investment criteria set forth in the Commission Order and will

review quarterly reports and monitor progress.

Reforming the Energy Vision (REV): The Commission commenced a proceeding in December 2013 to transform its regulation of electric distribution utilities by articulating core policy outcomes intended to better align the role and operations of utilities to enable market and customer-driven change.



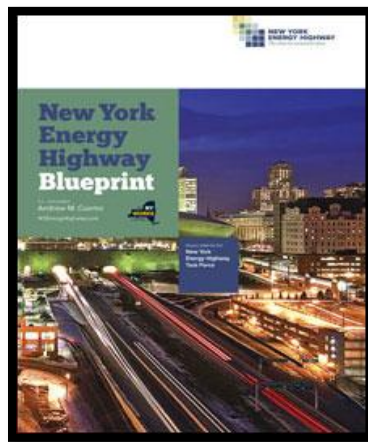
In keeping with recommendations of the Moreland Commission on Utility Storm Preparation and Response, the PSC commenced a process that will lead to a top-to-bottom restructuring of the State's energy efficiency programs to help ensure that New Yorkers have access to reliable, clean and competitively priced electric power. The end goal of the process will be to give consumers greater freedom to manage their total energy bill. The five core policy outcomes expressed by the Commission are as follows:

- Empowering customers with information and knowledge, and ensuring the availability of tools to

procure supply and services that consumers' value.

- Developing sustainable markets that support innovation and encourage private financing that will support deployment of energy efficiency measures and renewable resources.
- Increasing system-wide efficiency by encouraging innovation in demand-management technologies, storage and distributed generation, combined with market design and regulatory measures that facilitate and reward demand-side responsiveness.
- Developing new market rules and regulatory designs that ensure fuel and resource diversity.
- Recognizing that a secure, reliable and resilient electric system must be considered as a critical feature of our economy.

Energy Highway Blueprint: The PSC acted in April 2013 on several major items in the



Energy Highway Blueprint related to strengthening the energy infrastructure. These actions are designed to ease transmission congestion, which will help lower electricity prices in downstate New York and support the development of clean energy projects throughout the state; plan for possible major power plant retirements to maintain a reliable power grid; and expand natural gas utility service to homeowners and businesses in New York State to lower energy costs.

- **A/C Transmission:** In April 2013, the Commission established a first-of-its-kind combined proceeding under Article VII of the Public Service Law for consideration of alternating current (AC) transmission projects that meet the Commission's objectives for congestion relief in the Mohawk/Hudson Valley corridor.

The Commission's actions were in response to the Blueprint's call for investing \$1 billion to develop 1,000 megawatts (MW) of new AC transmission capacity, with preference for projects built along existing rights-of-way or involving the upgrade of existing lines, to mitigate environmental impacts. Easing the current transmission constraints will enhance system reliability and supply diversity, and will provide significant economic and environmental benefits by permitting excess power from upstate sources, including renewable energy

facilities, to reach the downstate areas of greatest need and reduce downstate emissions.

- **Indian Point Contingency:** Regarding major power plant retirements, the Commission addressed portions of the plan filed by Consolidated Edison Company of New York Inc. and the New York Power Authority (NYPA) to mitigate the impact that would occur if the Indian Point Energy Center (IPEC) nuclear power plants were retired. As part of that proceeding, the Commission:
 - Approved contingency program goals designed to achieve demand reductions from energy efficiency, demand response and on-site generation projects, and directed Consolidated Edison to work with the New York State Energy Research and Development Authority and NYPA, to file an implementation plan.
 - Directed Con Edison and the New York State Electric and Gas Corporation to work with NYPA, to develop transmission owner transmission solutions to resolve reliability issues that would develop if IPEC were to be retired.
 - Proposed that costs that would be incurred if IPEC were retired be recovered from the beneficiaries of the contingency plan who would otherwise suffer from reliability

problems if IPEC closes without the benefit of the plan's remedial measures.

- Directed staff to issue a proposal to identify beneficiaries.

To follow through on recommendations in the Energy Highway Blueprint, in October 2013, the Commission approved a suite of projects to foster grid reliability in the event that IPEC is unable to generate electricity due to the expiration of its federal operating licenses in 2015.

The specific solutions accepted included: three transmission projects capable of reducing capacity needs by more than 600 MW and extension of existing programs and creation of new programs designed to reduce downstate electricity use by 180 MW through energy efficiency and demand response. This suite of projects represents the least-cost and least-risky portfolio for the IPEC reliability contingency plan.

- **Natural Gas Service Improvements:** In April 2013, Commission staff developed a plan to help the utilities and the Commission to better manage, track and fulfill customer requests for natural gas service, and collaborate with utilities and interested parties to improve utility websites and other outreach and education tools on the benefits and risks of converting to natural gas, as well as the process for conversion.

Moreland Commission Reforms: The Commission took important steps in August 2013 to substantially improve and strengthen the performance of New York's large electric utilities during and after major storm events (utility emergency plans). These actions stemmed from recommendations made by the Moreland Commission on Utility Storm Preparation and Response, instituted by Governor Cuomo to investigate the electric utilities' management, preparation and response to the major storms that have affected New York State over the past two years, including Superstorm Sandy, Hurricane Irene and Tropical Storm Lee.

In July 2013, the Commission staff provided additional direction to the utilities to improve mutual assistance protocols; improve identification and contacts for all telecommunication companies within each utility's service territory; improve coordination with local officials; and refine utility-specific procedures for handling downed wires.

The Commission ordered utilities to address a number of other recommendations in their electric emergency plans involving the coordination of communications and restoration efforts between electric utilities and telecommunications companies; development of procedures to track electric customers who experience flood damage to customer-owned electric equipment and energized wires; development of municipal call procedures; and examination of customer service staffing levels.

Strengthened Public Service Law: The 2013-2014 State Budget, approved by Governor Cuomo in April 2013, included reforms implemented that strengthened the oversight and enforcement mechanisms of the PSC to ensure that major electric and gas utility companies are accountable and responsive to regulators and customers. The implemented reforms were based on recommendations made by the Moreland Commission.

As a result, the PSC is now required to approve electric emergency response plans filed annually by electric corporations. To ensure compliance with newly strengthened laws and regulations, the Commission has the ability to initiate a civil penalty proceeding in situations where a utility has failed to file or properly implement a storm plan.

In addition, in April 2013, a scorecard was developed to assess utilities' performance for power restoration after a major outage. The scorecard will help establish standards to promote effective emergency preparation and response by utilities in the restoration of power to their communities. The scorecard will further provide quantitative measures to assist the Commission in its evaluation of utility performance, its determination of whether to assess a penalty, and the magnitude of the penalty to be assessed.



Public Service Commission at monthly session.

II. High-Profile Proceedings:

Electric:

Rate Freeze for Con Edison: In February 2014, the PSC adopted a two-year electric rate plan and three-year natural gas and steam rate plans for Consolidated Edison Company of New York, Inc. (Con Edison) that keeps flat the charges paid by customers for delivery service.

The electric rate plan keeps delivery charges for residential and small commercial customers virtually unchanged from such charges paid in 2013 for the next two years; meanwhile, delivery charges paid by gas and steam customers will remain practically the same for the next three years.

The adopted multi-year, rate-stabilizing agreement is far better for customers than what Con Edison had proposed. Con Edison had requested approval of an 8 percent increase (\$417.6 million) to electric delivery revenues, a 2.5 percent (\$27.3 million) increase to gas delivery revenues, and a 2.3 percent (\$7.9 million) increase to steam

delivery revenues effective January 2014, among other things.

In addition to stabilizing delivery charges to customers, other benefits for customers include: improving and increasing the discounts associated with the electric and gas low-income programs; ensuring quicker reconnections of residential electric service; initiating a new business incentive rate program to assist small businesses recovering from Superstorm Sandy; strengthening performance measure metrics for customer service and electric reliability; and expanding performance measure metrics for gas safety violations.

Con Edison is also investing \$1 billion over a four-year period to harden and make more resilient its electric, gas and steam systems to address the impact on climate change.

Additionally, the Commission significantly increased the amount of leak-prone pipe to be replaced, and expanded the program to include replacement of leak-prone pipes in flood zones. It also required a study on ways to reduce the amount of methane, a greenhouse gas that leaks from the gas distribution system.

The new electric rate plan advanced cleaner fuels and new technologies to enhance efficiency and reliability. Con Edison will study the feasibility and cost-effectiveness of expanding the use of microgrid systems, which are small-scale versions of the centralized electricity system designed to achieve specific local goals, such as reliability, carbon emission reduction,

diversification of energy sources, and cost reduction. Con Edison is also required to improve and expand its oil-to-gas conversion program.

For the three-year steam rate plan, delivery bills will remain at the current level, and result in a \$8.2 million customer credit being available at the end of the three-year rate plan. At the end of the rate plan, steam delivery charges paid by customers will rise 2.66 percent on a total bill basis, and then remain at that level unless the company seeks and gains approval for new rates.

New Capacity Zone: In February 2014, the Commission sought to have the Federal Energy Regulatory Commission (FERC) reverse a decision that would result in a potential \$230 million increase in annual electric bills to residential, commercial, and industrial customers in the lower Hudson Valley.

In January, FERC approved new capacity market rules requested by the New York Independent System Operator (NYISO) for all capacity zones, including a new zone in the Lower Hudson Valley, and reiterated its decision to deny the State's request to phase in the new zone. These new rules, expected to take effect in May 2014, will be effective for three years, and will affect the prices that New York consumers pay to secure an adequate supply of electricity.

As initially proposed, the establishment of the new capacity zone would have resulted

in a \$350 million increase in annual electric bills for customers in the lower Hudson Valley. However, in its January decision, FERC accepted several changes offered by the NYISO to the proposed rules that lowered the potential impact on consumers to an estimated \$230 million annually.

While FERC agreed to modifications that reduced the initial consumer impact, it maintained its decision to implement a new capacity zone and rejected the proposal to phase in the impact of the new capacity rules over time.

The PSC said FERC should reconsider its decision not to allow a phase in of the new capacity zone. The PSC maintained that the evidence clearly supports a conclusion that a new capacity zone is not necessary and, at a minimum, a phase-in approach is needed to ensure that prices are just and reasonable, and to avoid unreasonable price increases for consumers within the new capacity zone.

The PSC, along with other parties, strongly opposed the imposition of such costs; arguing instead that the State should be allowed time to develop strategies that would enable more electricity to be transferred from upstate New York to the downstate area, which would mitigate the need to burden consumers with higher expenses.

\$108M Commitment to Solar Industry: In December 2013, the Commission approved an additional commitment of \$108 million in funding over the next two years for residential and commercial solar energy projects under Governor Cuomo's NY-Sun initiative, bringing the NYSEDA total budget for the next two years to \$216 million. The funding addressed growing demand for clean energy throughout the State, and supports the Governor's mission to reduce the cost of solar by providing predictability and certainty to the industry and enabling its continued growth.

The Commission authorized NYSEDA to plan a transition of its current solar programs to a regional megawatt block structure that includes a longer-term schedule for incentive rebate levels that change according to a predetermined set of targets; as more megawatts are installed, the per-megawatt rebate level falls. As part of this transition, NYSEDA will continue to set aside \$30 million to increase solar installations in the downstate regions. The remainder of the \$108 million will be allocated based on regional budgets and market conditions.

Sale of Central Hudson: After a lengthy and thorough examination and regulatory review, the Commission determined that Fortis was qualified to purchase the electric and natural gas utility Central Hudson. As the owner of a regulated utility in New York State, Fortis will be required to meet New York's stringent rules and regulations designed to ensure safe, secure, and

reliable access to utility service for residential and business consumers, at just and reasonable rates.

In June 2013, the Public Service Commission approved the acquisition of CH Energy Group Inc., owner of Central Hudson Gas & Electric Corporation, by Fortis, Inc. of Canada, along with added commitments by the companies to enhance financial protections for ratepayers, such as freezing rates for at least two years, and other community and economic development benefits.

Some of the key provisions of the Commission's decision include:

- Measures to protect the financial integrity and credit standing of Central Hudson, which includes a ban on cross-default provisions, a "golden share" designed to prevent a voluntary bankruptcy of Central Hudson, and no allowance for transaction costs or goodwill costs.
- A freeze on Central Hudson electric and gas delivery rates through July 1, 2015.
- Payment by Fortis of \$35 million to Central Hudson to cover expenses normally required to be recovered from ratepayers, such as storm restoration costs. The funds would be used only for expenses that are authorized by the Commission.
- A \$5 million community benefit fund established by Fortis for economic development and low-income customer assistance programs.

- A guarantee of \$1.85 million per year of savings to ratepayers for five years.
- A commitment to maintain Central Hudson's active involvement in the community at no less than 2011 levels through 2022.
- Continuation of customer service, reliability and safety mechanisms with increased negative revenue adjustments for failure to meet targets, and addition of a new metric for violations of certain pipeline safety regulations.
- Assurance that a majority of the Central Hudson board of directors will be independent and that at least two of the independent directors will be residents of the Central Hudson service territory.
- Prohibition against relocation of Central Hudson headquarters outside the service territory without approval of the Commission.
- Assurance that there will be no layoff of any Central Hudson employees for at least four years.

The Commission's decision allowed a renegotiated agreement between Central Hudson and Local 320 of the International Brotherhood of Electrical Workers to take effect that included extending the current contract through June 30, 2017; no layoffs through June 30, 2017; 35 new union jobs; and a commitment to hire, retain and train skilled union craftspeople.

Spurring Innovation and Consumer Benefits: In February, the Commission took



Chair Zibelman meets with Retail Energy Market Stakeholders group in March.

action to improve the economic value that the State's retail energy suppliers provide to residential and small commercial customers, by helping to ensure development of a competitive retail market structure expected to lead to innovation and consumer benefits.

The Commission's decision is intended to make it easier for residential and small commercial energy customers to compare prices, strengthened measures to curtail inappropriate energy marketing activities, address a concern about the possible lack of benefits received by low-income customers, and better positioned third-party energy suppliers, known as energy service companies (ESCOs), to provide greater financial value to their customers.

The Commission directed that improvements be made to residential and small commercial retail energy markets including: implementing on-line bill calculators to enable ESCO customers to compare historically what they were charged by their ESCO as compared to what

they would have paid if commodity service was obtained from the utility; requiring ESCOs to file historic pricing information for products without energy-related value-added services; and ensuring that ESCOs only enroll customers who participate in utility low-income assistance programs in ESCO services that guarantee savings over what the customer would have been charged by the utility, or provide energy-related services designed to reduce a customer's overall energy bill.

In addition, the Commission further strengthened the rules and procedures applicable to ESCO marketing and consumer enrollment, including certain door-to-door marketing requirements, and ensured that ESCOs operate in accordance with the Uniform Business Practices.

Along with changing the way the retail market operates, the Commission will investigate ways ESCOs can facilitate the development of energy-related value-added product and service offerings, such as residential energy-management services, demand-response programs and tools, and other types of energy efficiency measures for residential and small commercial customers.

Improvements to Solar Energy Program:

As part of the continuing effort to support the goals set forth by Governor Cuomo in the NY-Sun initiative, in July 2013, the PSC authorized modifications to the solar energy portion of New York's renewable energy program. These changes will spur

additional solar installations by providing funding for larger solar installations than previously allowed.



Under the NY-Sun initiative, launched by Governor Cuomo in 2012, the state adopted the goal of quadrupling the amount of photovoltaic capacity installed in 2013 over levels installed in 2011. To advance that goal, Governor Cuomo called for expanding the NY-Sun initiative to provide long-term funding of \$150 million annually over the next 10 years to ensure growth of the solar industry across the state.

The Commission's decision authorized the NYSERDA to redesign the Renewable Portfolio Standard solar photovoltaic programs for residential customers and small business owners to accelerate the installation of solar systems to help meet the NY-Sun goals.

Specifically, NYSERDA was allowed to offer direct incentives for commercial systems between 50 kW and 200 kW and to correspondingly raise the minimum project size for the competitive bid solar program to systems above 200 kW. In addition, NYSERDA will implement a temporary incentive to allow for capacity additions up to the new 200 kW maximum size in the commercial systems program, and it will

increase the residential size cap from 7 kW to 25 kW.

Natural Gas

National Fuel Gas Improvements: In August 2013, the Commission directed National Fuel Gas Distribution Corporation to submit a plan to implement a series of recommendations made after an independent audit of the company's gas business. The recommendations focused on the company's construction program planning processes and operational efficiency.

The scope of the audit addressed eight elements associated with the construction program planning cycle, including load forecasting, supply procurement and system planning. The independent consultant, selected in May 2012, made 76 recommendations on ways National Fuel Gas and its parent company could improve construction program planning.

In terms of direct customer benefits, the consultant projected that several recommendations regarding the reconfiguration of the company's gas supply portfolio will result in more than \$16 million in gas supply savings over a five-year period, which will reduce overall natural gas costs to customers.

Rates Frozen for National Grid NY: In June 2013, the Commission adopted the terms of a joint proposal signed by National Grid NY, Department staff, and Queens Gas Consumers that froze base delivery rates

for 2013 and 2014, increased funding for low-income ratepayers, strengthened customer service performance measures and modified, among other things, the company's sharing of earnings, revenue requirements and capital expenditures.

The company's rates were set as part of a five-year rate plan that was adopted in 2007. As part of that plan, National Grid NY had an allowed return on equity (ROE) of 9.8 percent, with sharing of earnings with ratepayers above 10.5 percent. However, upon review, it was determined that the utility had exceeded its allowed return in 2008-2011 with ROEs ranging from 10.48 percent to 14.10 percent. It had also exceeded its earnings-sharing target in 2008, 2010, and 2011; and, after sharing with ratepayers, retained actual earnings of 11.85 percent in 2010 and 2011.

The proceeding was initiated out of a growing concern about the company's high earnings, which is now addressed by the approved rate plan that provides significant public interest benefits.

In addition to freezing base delivery rates, other key features of the joint proposal included: lowering the allowed ROE to 9.4 percent, down from 9.8 percent; requiring excess earnings above 9.4 percent be shared 80 percent ratepayers/20 percent shareholders, with the ratepayers' share applied to Site Investigation and Remediation (SIR) deferral balances; enhancing National Grid NY's gas safety and customer service metrics; and increasing

funding for the low-income program from \$7.4 million to \$10.4 million.

Increased Gas Safety Measures: As part of its continuing effort to improve natural gas safety, in February 2014, the Commission directed gas utilities in New York to conduct a risk assessment of their distribution systems, focused primarily on areas where third-party excavations might have occurred after the installation of gas pipes. Utilities were also directed to develop best practices in terms of outreach on the importance of the public reporting gas odors to their local utility and informing local officials about the importance of proper excavation.

Under State law, the Commission has general supervision and investigatory authority over New York's gas utilities and is obligated to ensure that every gas corporation provides safe and adequate service and facilities.

Consistent with this obligation, the Commission ordered the State's gas utilities to report findings of the risk assessments to the Commission in six months, followed by an action plan for addressing such risks, if needed. Utilities will also conduct a collaborative to develop best practices for continuing public education on reporting natural gas odors, and will explore new ways to reach local governmental entities to educate them on the potential hazards associated with excavations near gas facilities.

Water

United Water NY Proceedings: The Public Service Commission instituted a proceeding in July 2013 to examine the continuing need for United Water New York's (UWNY) proposed development of a new water supply source to satisfy Rockland County's long-term water supply requirements.

The water utility proposed construction of a new long-term water supply source in Haverstraw, to obtain sufficient capacity to supply the county's projected future peak demand for water required for public health and safety. The company filed its proposal to construct the Haverstraw Project in compliance with an order issued by the Commission in 2006, requiring UWNY to develop a plan for meeting long-term demand, projected to exceed supply by the end of 2015.

The proposed Haverstraw project involves the construction and operation of a new water intake, intake pumping station and water treatment facility in the Town of Haverstraw. The facility would collect and treat water from the Hudson River and deliver up to 7.5 million gallons a day of potable water for the use of Rockland County customers.

Telecommunications

Fire Island Plans Cancelled: The Public Service Commission announced in September 2013 that it would quickly review Verizon New York, Inc.'s request to suspend efforts to offer wireless Voice Link service as an alternative to basic landline service to certain customers on Fire Island where the copper wire facilities were destroyed by Superstorm Sandy.

On September 11, 2013, Verizon notified the Commission that it intended to abandon plans to use Voice Link as the sole source of voice service on western Fire Island. Instead, Verizon proposed to rebuild its landline network using state-of-the-art fiber in western Fire Island. The company would continue to offer Voice Link, but only as an option.

On May 15, 2013, the Commission allowed Verizon to explore the viability of using its Voice Link service, limited to western Fire Island, solely on a temporary basis, pending the Commission's solicitation of input from the community and a thorough staff investigation of the use of the technology and its impact on customers. With Voice Link service, a small transmitter/receiver was to be installed at the customer's premises which is plugged into a normal electrical outlet and then into any telephone jack. Customers would have been able to use their existing telephone sets by plugging into the jack, but the technology was limited to voice-only service.

Verizon will offer western Fire Island residents a standard voice service over a fiber network, as well as optional Voice Link service. Verizon will also offer one or more bundled FiOS service offerings



Storm damage to telephone and utility power lines.

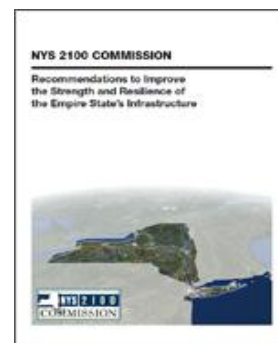
that will include FiOS Digital Voice and broadband Internet access.

Improving Resiliency: In March 2014, the Commission received a report from Department of Public Service staff on improvements made by New York telecommunication companies to improve the resiliency of the telecommunications network and restore service safely and as quickly as possible following emergency events and natural disasters, such as Superstorm Sandy.

The actions addressed findings made by the Moreland Commission on Utility Storm Preparation and Response and the NYS 2100 Commission, which were instituted by Governor Cuomo to improve coordination among utility companies for better management, preparation and response to storms like those that have affected New York State over the past few years,

including Superstorm Sandy, Hurricane Irene and Tropical Storm Lee.

To ensure that network resiliency continues to be improved, Commission staff made several recommendations to improve companies' emergency response strategies. They included using websites, press releases, and social media to provide restoration information; improving coordination between wireless and wireline providers to expedite critical service restoration; enhancing communications and coordination with electric utilities on restoration efforts; reviewing portable generator inventories, manpower levels, and outage information to expedite service restorations; and reviewing network architecture plans to improve network resiliency.



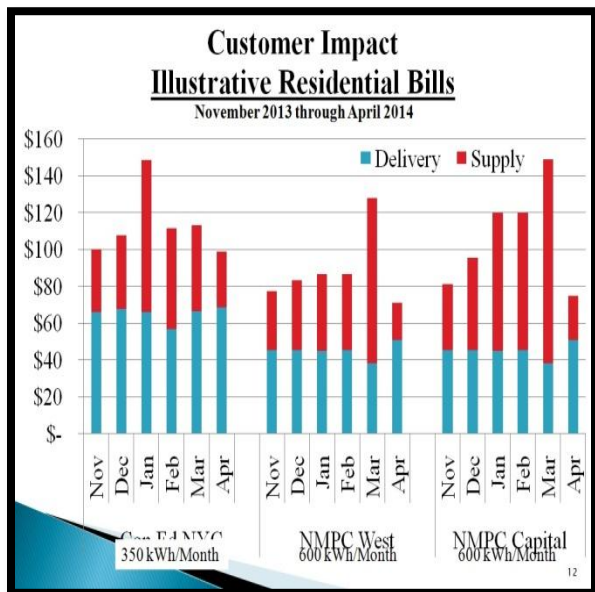
Commission staff is examining how to facilitate arrangements that would allow utilities and telecommunication service providers to share fuel supplies. Staff held discussions regarding State and local regulatory rules that might limit telecommunication providers' ability to handle and transport fuel, and staff sought to improve the credentialing process for

technicians to speed network restoration timeliness.

III. Ongoing Projects &

Initiatives:

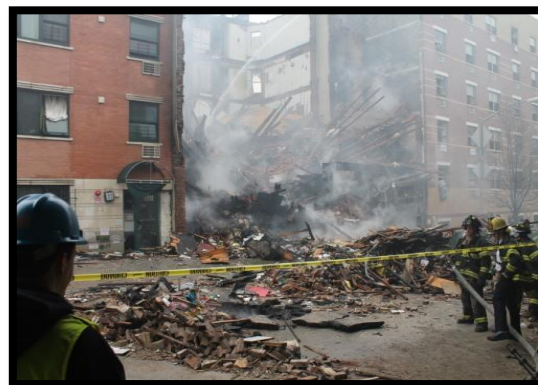
Winter Energy Prices Investigation: After the extremely high energy prices this past winter, in January 2014, the Department began exploring the causes and potential solutions for the situation, and is working with the Federal Energy Regulatory Commission to ensure consumers are



adequately protected from future high prices and volatility.

East Harlem Explosion Investigation: The Department in March 2014 began conducting an independent investigation of an East Harlem explosion that occurred that month, killing eight people and injuring

others. The Department has dedicated a 13 member multi-disciplinary team of engineers, lawyers and other professionals to handle the investigation.



Aftermath of natural gas explosion in East Harlem.

State of Telecommunications Study: The telecommunications industry has undergone profound changes over the last several decades, and there is a need to undertake a comprehensive examination and study of the state of the industry in New York. In March 2014, the Chair of the Commission directed staff to commence such a study and report its findings to the Public Service Commission, the Legislature and the Governor within 12 months from when the study began in May.

The comprehensive examination of the telecommunications industry in New York will include an analysis of the varying telecommunications technologies used today, including fiber-to-the-premises, cable, wireless, and landline technologies. The study, which will include opportunities for public input, will explore emergency response systems, regulatory oversight,

quality of service, consumer protections, and affordability.

Operations Audit of Staffing Levels: In January 2014, the Commission announced it would conduct an independent, operations audit at the major New York energy utilities. The audit focused on the internal and external staffing levels of core utility functions of Consolidated Edison of New York, National Grid's Upstate Electric Operations and National Grid's Gas Operations, Central Hudson Gas and Electric, National Fuel Gas Distribution Company, Orange and Rockland Utilities, Rochester Gas and Electric Corporation, and New York State Electric and Gas Corporation.

In his 2013 State of the State Address, Governor Cuomo highlighted the importance of management and operations audits of New York's utilities, and authorized the Commission to direct utilities to comply with recommendations made pursuant to management and operations audits.

A request for proposal was issued detailing the scope and timetable for the work to be performed by an independent consultant for the operations audit. The consultant, under the direction of Commission staff, will examine the utilities' internal staffing of certain core utility functions, the criteria and controls for the use of external staffing, and consider current industry best practices. The consultant will then make

recommendations for improvements, as needed.

Restructuring Energy Efficiency Programs: To advance recommendations made by the Moreland Commission to improve New York's energy efficiency program, in September 2013 Public Service Commission staff issued a proposal to dramatically restructure the way the State's existing energy programs do business.

Previously, the Moreland Commission issued a report critical of the operation of the State's energy efficiency program. According to the report, the handling of the State's energy efficiency programs has led to confusion, duplication, and inefficient use of funds.



The findings are important given the sizeable amount of ratepayer money invested in energy efficiency in New York.

When the PSC reauthorized funding through 2015 for the program in 2011, it acknowledged programmatic concerns raised by DPS staff and parties. While noting that many energy efficiency

programs were still in a relatively early stage of implementation, the Commission, recognizing improvements could be made, adopted an approach of continuous improvement, and ordered further review in 2013.

The overall program consists of 93 energy efficiency programs administered by the NYSERDA and the six investor-owned electric utilities and 11 gas companies operating in New York. The PSC has authorized the collection from ratepayers of approximately \$3.1 billion through 2015 to fund the energy efficiency initiative.

The Moreland Commission suggested reconfiguring the program to eliminate overlaps between NYSERDA and the utilities, and the administrative overlap between the PSC and NYSERDA energy efficiency staff.

To date, about \$1.4 billion has been spent to save 5.1 million MWhs and 10.5 million Dths energy annually. Over a five-year period, the energy currently saved in New York is valued at more than \$5.5 billion, based on current residential energy prices.

Electric Utilities' Emergency Plans: In March 2014, the Commission approved amended utility electric emergency plans, originally filed last December, that are designed for the prompt restoration of service in an emergency event involving widespread outages due to storms or other major events. The action stemmed from recommendations made by the Moreland Commission.

As a result of new regulatory enforcement powers, electric utilities are required to file emergency plans annually by December 15 with the Commission. In response to this deadline, utilities filed their plans in December 2013. After a staff review and discussion, the utilities submitted amended emergency plans, building on improvements made over the past year.

One of the key changes incorporated into the utilities' emergency plans, based on successful meetings in April 2013 between Department staff, the electric utilities, the National Guard, and the State Office of Emergency Management, each emergency plan now details the National Guard's capabilities and restoration support role, and process for requesting assistance.

The amended emergency plans include key improvements, including: use of consistent definitions and procedures to respond to down wire reports; a section dedicated to coordination with telecommunication companies including liaison procedures, mutual information sharing, responding to requests and questions, and joint storm drills; protocols for restoring power when assisting customers affected by widespread flooding; protocols for requesting mutual assistance and deploying utility and mutual assistance crews; information on Estimated Times of Restoration development, accuracy, and how this information is communicated; strengthened procedures for communicating consistent, timely information to the public, elected officials, and municipal officials before and during

emergency events; identification of call center staffing levels and communications vehicles; and inclusion of consistent definitions and procedures regarding Life Support Equipment and Special Needs Customers.

Comcast/Time Warner: In May 2014, the Commission commenced a review of Comcast Corporation's proposed merger with Time Warner Cable, Inc. to determine whether the proposed transaction will be beneficial for Time Warner customers, as well as the State. Comcast and Time Warner Cable have an agreement in which Comcast would acquire 100 percent of Time Warner for \$45.2 billion.

In addition to needed Federal regulatory approval, the Commission will use its new regulatory powers, given to it by the State legislature, to conduct a thorough and detailed investigation into Comcast's proposed merger with Time Warner Cable.

The purpose of the investigation will be to determine whether the proposed transaction is in the best interest of Time Warner's New York customers and the State as a whole. As part of that review, the Commission will consider and weigh very carefully the comments it receives from the public.

It is anticipated that the Commission will make its decision at its Nov. 13, 2014 session.

