New York State

Public Service Commission

Annual Report

2008 - 2009

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David A. Paterson, Governor | Garry A. Brown, Chairman

MISSION STATEMENT: *The primary mission of the New York State Department of Public Service is to ensure safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business consumers, at just and reasonable rates. The Department seeks to stimulate innovation, strategic infrastructure investment, consumer awareness, competitive markets where feasible, and the use of resources in an efficient and environmentally sound manner.*

AGENCY DESCRIPTION: *The Department of Public Service has a broad mandate to ensure that all New Yorkers have access to reliable and low-cost utility services. The Department is the staff arm of the Public Service Commission. The Commission regulates the state's electric, gas, steam, telecommunications, and water utilities. The Commission also oversees the cable industry. The Commission is charged by law with responsibility for setting rates and ensuring that adequate service is provided by New York's utilities. In addition, the Commission exercises jurisdiction over the siting of major gas and electric transmission facilities and has responsibility for ensuring the safety of natural gas and liquid petroleum pipelines. Bipartisan by law since 1970, the Commission consists of up to five members, each appointed by the Governor and confirmed by the State Senate for a term of six years or to complete an unexpired term of a former Commissioner. The Chairman, designated by the Governor, is the chief executive officer of the Department.*

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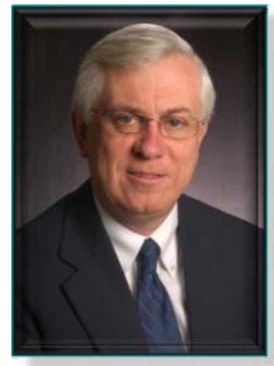
A Message from the Chairman



I would like to take this opportunity to address some of the most pressing challenges facing New York State, and the implications of the current financial crisis on our State's energy policies.

A tremendous challenge for New York is its dependence on fossil fuels — oil, natural gas, and coal — which currently provide roughly 50 percent of the State's energy. These "imported" input fuels greatly impact New York's energy prices.

New York must increase its fuel diversity, primarily through further development of all of our available renewable energy resources. We must also improve our energy efficiency efforts. And, we must rationalize our electric system through appropriately developed demand-side management techniques and incorporate technological innovations and regulatory approaches.

So, what is New York doing to meet this challenge?

The Commission has long-supported and fostered development of renewable resources through its Renewable Portfolio Standard (RPS) program. The Commission's efforts toward developing renewable energy continue to gain momentum. The RPS initiative, now approaching its fourth year, continues toward its goal of having 25 percent of the State's energy come from renewable sources by 2013. Governor Paterson has further challenged us to stretch that goal to 30 percent of energy use provided by renewable resources by 2015.

To date over 3.5 million MWh of annual renewable energy has been contracted to be delivered to residents of New York through the RPS program. Contracts awarded under the program have amounted to $559 million for renewable energy projects in New York.

Energy efficiency is critically important. In the Commission's 2008 Energy Efficiency Portfolio Standard (EEPS) Order, we adopted a goal of reducing the State's electricity consumption 15 percent below the level forecasted by 2015 through energy efficiency usage reductions. Customer benefits of our EEPS initiative are expected to exceed $4 billion with net benefits of $1.8 billion through 2015.

New York is also very focused on reducing its greenhouse gas emissions. Along with nine other Northeastern states, New York is participating in the Regional Greenhouse Gas Initiative (RGGI), the nation's first mandatory, market-based effort to reduce greenhouse gas emissions.

States sell nearly all emission allowances through auctions and invest proceeds in consumer benefits: energy efficiency, renewable energy, and other clean energy technologies. To date, two auctions have been conducted and New York's proceeds have been approximately $42 million for more energy efficiency and clean energy technologies.

The development of a Smart Grid is also taking shape in New York. In January 2009, the Commission took a major step by establishing the criteria for minimum Advanced Metering Infrastructure (AMI) functionality. This decision creates the road map for utilities and vendors to use and to decide the features and functions of AMI meters and communications systems that will be selected.

In 2008 Governor Paterson established a State Energy Planning Board charged with preparing a State Energy Plan. Along with other participating members of the Board, we are responsible for creating a State Energy Plan that will include a statement of long-range energy policy objectives and strategies appropriate to increase energy supply and reduce energy demand. It will be an important and critical element in helping solve our future energy problems.

Foremost on our minds these days, is the recently enacted American Recovery and Reinvestment Act of 2009. This new federal legislation will certainly have an impact on the electric industry—providing tax incentives, loan guarantees and other funds—to stimulate the modernization of our nations' electricity delivery infrastructure. New York will seek funding for projects under the new federal legislation to reduce peak demand via energy efficiency and upgrades to the electric system, including the addition of smart grid technology.

During these difficult times, it is important for regulators to recognize today's economic realities and how it may impact our policies, and utilities current projects and utilities ability to raise capital.

I would note that there are several potential drivers of utility investment on the horizon—transmission and distribution upgrades due to aging infrastructure to meet new needs, requirements to create a smart grid, energy efficiency investments, and renewable energy mandates.

Based upon experience to date, it appears that all of New York's utilities and their parent holding companies have adequate access to capital markets in order to raise the funds necessary for construction projects that are needed for safe and adequate service.

While access to capital is good for New York's transmission and distribution utilities, the Commission also recognizes that the realities of the economic downturn may impact some of the State's energy policies and we may need to further consider in the days to come.

Garry Brown, Chairman

I. Audits and Investigations

Con Edison's Capital Expenditures:

In February of 2009 the Commission commenced a proceeding to determine the prudence of actions by Consolidated Edison Company of New York, Inc. (Con Edison) for its capital project contract funding related to the company's electric transmission and distribution systems. Also, Con Edison was directed to investigate and report on, among other things, improvements in internal controls, and methods and procedures with respect to contracting for capital projects, operations and maintenance work.

> *"Under our regulations, a prudence investigation and proceeding is undertaken whenever ratepayer interests may have been compromised by improper utility spending,"* said Commission Chairman Garry Brown.

The Commission also required Con Edison to report more broadly on the adequacy of its internal controls, the efforts that the company had made to enforce these controls, the company's efforts to identify and respond appropriately to other potential criminal activity, and to show why the company burden concerning the prudence aspects of the Commission's proceeding should be expanded to matters beyond the scope of the affidavits *(Case 09-M-0114).*

Con Edison Steam Rupture Settlement:

At its November 2008 monthly meeting, the Commission approved a $37 million settlement to resolve its prudence investigation to evaluate Consolidated Edison Company of New York, Inc.'s (Con Edison) actions and practices relating to the July 2007 steam pipe rupture of the company's distribution system at the corner of East 41st Street and Lexington Avenue in Manhattan.

> *"The public interest is well-served in approving the settlement since it precludes Con Edison from recovering from ratepayers its direct and indirect costs for the steam pipe rupture,"* said Commission Chairman Garry Brown. *"In addition, the settlement significantly promotes the safety of the steam system."*

In a separate, but related matter, with the approval by the Chairman of the Commission, Con Edison established a reserve account in the amount of $4 million to be used for ratepayer benefit in lieu of further action by the Commission.

This account would be used to mitigate the rate impact of operational and maintenance and/or capital expenditures made by Con Edison to implement safety-enhancement actions outlined in the company's December 2007 Recommendations and Action Plan, and in Staff's February 2008 Report on the steam pipeline rupture which included 13 recommendations for improvement in Con Edison's steam system operations and maintenance practices and procedures *(Case 08-S-0153).*

PSC to Examine National Grid's Management and Operations:

In July of 2008, the Commission authorized the issuance of a Request for Proposal (RFP) for an independent third-party consultant to conduct a comprehensive management and operations audit of Niagara Mohawk Power Corporation d/b/a/National Grid's (National Grid) electric business. The independent third-party consultant to conduct the comprehensive management and operations audit would be selected by the Commission and report to and be under the direction of Staff of the Department of Public Service.

The examination process would emphasize an assessment of National Grid's effectiveness in meeting its mission, goal and objectives, particularly with respect to performance goals and is to identify any opportunities for improvement. Also, included within the audit scope would be an examination of several critically important elements of the company's construction program and planning process related to day-to-day and long-term operational efficiencies and other performance goals as outlined in the RFP *(Case 08-E-0827).*

Queens Long Island City Settlement:

The Commission in July of 2008 approved a settlement, with modifications, in regard to the July 2006 Queens power outage in Consolidated Edison Company of New York, Inc.'s (Con Edison) Long Island City electric system. The Commission sought public comment concerning the settlement via hearings, toll-free Opinion Line, the Internet and correspondence to the Secretary to the Commission.

"Approval of this settlement includes benefits which could not otherwise be conferred in a litigated prudence proceeding and provides a portion of the remedies to those customers directly affected by the 2006 Queens' power outage," said Commission Chairman Garry Brown.

The settlement contains two basic monetary provisions which were offered by Con Edison in exchange for the termination of the prudence investigation instituted by the Commission in April 2007. The first is the disallowance of $40 million of plant costs and $6 million of accrued carrying charges incurred by Con Edison to replace and repair electricity delivery facilities in the Long Island City network associated with the July 2006 power outages. The second is Con Edison's provision of $17 million in community-benefits funds dedicated to the community directly affected by the 2006 Queens power outage.

Also, the $46 million disallowance regarding repairs and replacements would not be included in Con Edison's earnings base and would not be collected from ratepayers. The benefits of this disallowance accrue to all Con Edison electric customers. Lastly, a study would be conducted and funded up to

$100,000 to investigate the economic and health impacts of the outage on the Long Island City residents and businesses *(Case 06-E-0894).*

II. Consumer Matters

Commission Assistance to Consumers:

In a report by staff in April of 2008, it was noted that approximately 301,000 utility customers were assisted by the Department of Public Service during 2007. Staff also reported in March of 2009 that approximately 308,000 utility customers in 2008 were assisted in resolving matters with utility companies regarding billing, service quality, and collections through the Commission's toll-free HELPLINE and Emergency Hotline.

> *"Staff plays a critical role in working directly with New Yorkers to ensure that they receive the Commission's essential consumer protections and rights regarding access to safe, adequate and reliable natural gas, electric, steam, water and telecommunications services,"* said Commission Chairman Garry Brown. *"Our Office of Consumer Services helps resolve customer issues with utilities by analyzing problems and developing solutions, one customer at a time, in a fair, thorough, and professional manner."*

As a result of the assistance provided by the Commission's Office of Consumer Service staff, utility customers received more than $7 million in 2007 and more than $2.2 million in 2008 in bill credits and refunds.

Commission Expands Consumer Protections:

In October 2008, the Commission voted to expand consumer protections concerning the marketing of competitive energy service companies' (ESCOs) service offerings. The new and improved marketing practices approved by the Commission are intended to provide reasonable standards of conduct for ESCOs to help ensure customer expectations of fair and accurate information are met. The

Commission's vote also included additional remedies to respond to lapses in ESCO marketing practices *(Cases 98-M-1343, 07-M-1514, 08-G-0078).*

> *"The Commission's action balances consumer needs for greater protection in the marketplace with the needs of ESCOs to avoid unnecessary barriers to entry and participation in the marketplace,"* said Commission Chairman Garry Brown. *"The improvement the Commission is making to ESCO marketing practices will provide even greater confidence and security to consumers."*

Central Hudson's Low-Income Customers:

In November of 2008, the Commission approved Central Hudson Gas & Electric Corporation's petition to provide $1.9 million in supplemental energy assistance benefits to low-income customers for the 2008-2009 heating season. The company would provide a one-time supplemental benefit of $200 to approximately 8,000 customers who are expected to receive federal Home Energy Assistance Program assistance. An additional $100 supplemental benefit would be provided to each of those customers enrolled or eligible for the company's Enhanced Powerful Opportunities Program *(Case 05-E-0934).*

Grid Customers' Net Merger Benefit:

The Commission in April 2008 increased by $11.5 million National Grid USA (National Grid) upstate customers' share of merger synergy savings associated with National Grid's acquisition of Keyspan Corporation (KeySpan). Also, the Commission issued a notice seeking comments by interested parties on two additional potential merger synergy savings issues—efficiency gains and merger synergy savings adjustments—resulting from an audit by Staff of the Department of Public Service of National Grid's calculation of this merger savings owed to upstate customers. The Commission's final resolution of these two issues could result in additional merger savings for National Grid's upstate electric and gas customers *(Case 01-M-0075).*

Grid's Low-Income Customers:

In June of 2008, the Commission approved National Grid's plan to modify its low-income affordability program and provide additional arrears forgiveness credits to help more low-income customers. The program changes include requiring the utility to provide a monthly, instead of annual, arrears forgiveness credit, eliminating excessive deferrals to participants' arrears balances, and limiting participation in the program to 24 months. The Commission anticipates these modifications will increase customer retention rates in the program and provide more timely assistance to low-income customers *(Case 01-M-0075).*

Low-Income Forum on Energy:

The Commission in May 2008, in cooperation with the New York State Energy Research and Development Authority, announced the 10th anniversary of the Low-Income Forum on Energy (LIFE) statewide conference that would bring together organizations and individuals committed to addressing the challenges and opportunities facing low-income New Yorkers as they seek safe, affordable and reliable energy.

This year's LIFE conference featured presentations on a variety of issues, including: updates on energy efficiency and revenue decoupling mechanism proceedings; keeping low-income households and communities informed about new efficiency and renewable technologies; green collar workforce development; and creating new, sustainable energy alliances.

Renewable Energy Expanded:

The Commission in October of 2008 changed its landmark Renewable Portfolio Standard (RPS) program to provide an additional $42.6 million in grants to assist residential and commercial consumers throughout New York State to install solar panels and other types of electricity-producing equipment.

"Development of renewable, clean energy generation is of paramount necessity in New York because of its positive environmental benefits," said Commission Chairman Garry Brown. *"Today, we are substantially improving the financial assistance provided to consumers interested in producing their own electricity. The renewable energy produced will replace electricity traditionally purchased from the local utility. As an added bonus, participating consumers can sell excess electricity that they generate to the utility; helping offset demand elsewhere."*

As authorized by the Commission, $20.6 million was made available to install solar photovoltaic systems. Additionally, $7.6 million was made available to install anaerobic digester biogas systems, which convert the energy stored in organic materials into biogas, which is fed directly into a combustion turbine to generate electricity. Finally, $18.8 million was set aside to pay for evaluation, measurement and verification of these renewable energy technologies, as well as to provide discretionary funding to respond to changing market needs. The financial resources are available for self-generation, "behind-the-meter" facilities located in New York *(Case 03-E-0188).*

Winter Storm Assistance:

Due to an ice storm and power outages in December 2008 in the Hudson Valley, the Capital Region and the North Country, the Commission's Office of Consumer Services extended its hours of operation to assist customers in reporting outages and obtaining available information.

"We must all work together to ensure that the public is kept safe and secure during times of great need," said Commission Chairman Garry Brown. *"Customers without power should follow the health and safety tips provided and take shelter in a warm location provided by the Red Cross or locality to ensure everyone's safety and welfare until their power is restored."*

The affected utilities called in additional company personnel, contractor line crews and forestry crews to help restore service in areas affected by the ice storm. Once the utility completed its assessment of the extent of damage to its electric facilities from the ice storm, estimated date(s) and time(s) for restoration of service would be provided by contacting the utility by telephone or visiting the company's Web site.

III. Energy Efficiency

Energy Efficiency Plan:

In May of 2008, the Commission received an update from staff on the status of the Energy Efficiency Portfolio Standard (EEPS) proceeding, along with the issuance of a notice to help form the basis of determining what incentives might be offered to utilities.

"Improving our State's energy efficiency is likely the most effective, and immediate, way to reduce the ever increasing burden of rising energy and environmental costs related to our need for greater amounts of electricity and natural gas," said Commission Chairman Garry Brown. *"I am very pleased that we have made progress to layout the foundation of this critically important initiative designed to dramatically lower energy consumption by 2015."*

In its presentation to the Commission, the presiding administrative law judges and senior staff provided an overview of the EEPS proceeding to date, and introduced a number of threshold policy recommendations for future consideration. In addition, staff defined the portion of the statewide program that is under the Commission's jurisdiction, and discussed the adoption of electric energy efficiency targets for the first three years, with associated benefit, cost and bill impact estimates in general terms. Finally, staff provided recommendations as to defining opportunities for utilities, the New York State Energy Research and Development Authority, and third parties to propose and administer energy efficiency programs.

In June of 2008, the Commission commenced its ground-breaking EEPS that seeks to reverse the pattern of every-increasing energy use in New York by reducing electric usage 15 percent of projected levels by 2015; one of the most aggressive efficiency programs in the nation.

Chairman Brown further noted that: *"The EEPS initiative is squarely in context of broader State policies designed to develop a clean energy industry and economy."* These policies include Executive Order No. 2 of Governor David Paterson, the Renewable Portfolio Standard, the Regional Greenhouse Gas Initiative, improvements in State energy building codes and appliance efficiency standards, and the Renewable Energy Task Force Report of then-Lieutenant Governor Paterson.

The ultimate EEPS program contemplated when fully funded would be expected to provide more than $4 billion in benefits to customers through 2015. In addition, it is anticipated that thousands of jobs would be created to support the new energy efficiency programs—retrofitting outdated, inefficient residential, commercial and industrial properties, installing new energy efficiency equipment, and informing the public about the new opportunities for savings on energy bills—by 2015.

In commencing the EEPS, the Commission established efficiency targets to be achieved by regulated entities through 2011. It also required utilities to begin collecting additional set asides of $172 million annually, beginning in October 2008, in System Benefits Charge (SBC) funding to invest in energy efficiency programs.

Additionally, the development of an efficiency target for natural gas would provide the basis for additional benefits. The $13 million annually through 2011 in natural gas energy efficiency programs included in the SBC funding is expected to result in a net benefit to New York's economy of more than $160 million *(Case 07-M-0548).*

In August of 2008, the Commission also set aside up to $27 million that would be given to electric utilities as an incentive to develop cost-effective programs designed to assist consumers in improving energy efficiency and reduce anticipated increases in consumer electricity bills.

> "*The incentives are valuable in securing a long-term commitment by the utilities to achieving efficiency goals in a cost-effective manner,*" said Chairman Brown.

Subsequently, a range of expedited utility-administered energy efficiency programs for Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., Orange and Rockland Utilities, Inc., and National Grid were approved by the Commission in January of 2009. These programs provided substantial money-saving rebates for thousands of New York electricity customers interested in reducing their monthly bills by installing energy efficient equipment in their homes and businesses.

The Commission's approval of expedited utility-administered energy efficiency programs equated to more than $181.7 million being available for these programs through 2011. These initiatives are expected to reduce annual energy consumption in the state by 584,718 MWh, which is the equivalent usage of approximately 73,000 houses for an entire year *(Cases 08-E-0113, 08-E-1007, 08-E-1014, and 08-E1019).*

Central Hudson's Gas Efficiency Plan:

In October of 2008, the Commission authorized Central Hudson Gas & Electric Corporation's (Central Hudson) $400,000 gas efficiency program, administered by the New York State Energy Research and Development Authority, to help low-income natural gas customers find ways to lower the cost of their fuel bills. Eligible homeowners and renters would be able to undertake energy efficiency measures that include attic and wall insulation, blower-door assisted air sealing, and related health and safety measures *(Case 07-M-1139).*

National Grid's Gas Efficiency Plan:

In September of 2008, National Grid was authorized by the Commission to offer customers a variety of cost effective efficiency improvement measures to help reduce consumption of natural gas and improve air quality under its $4.89 million interim energy efficiency programs under EEPS. The company was required to coordinate its energy efficiency programs with other programs provided in the service area to avoid duplicative efforts and to enhance program efficiencies *(Case 08-G-0609).*

NYC, Westchester County Gas Energy Efficiency:

The Commission ordered Consolidated Edison Company of New York, Inc. (Con Edison) in September of 2008 to maintain its existing $14 million natural gas energy efficiency program and to start work immediately on creating a more comprehensive—and substantially better funded—portfolio of gas energy efficiency programs to better serve New York City and Westchester County customers. Con Edison was directed to work with the New York State Energy Research and Development Authority to develop a new $24 million comprehensive portfolio of gas energy efficiency initiatives for Commission consideration in 2009.

The Commission deemed the potential energy efficiency savings in these efforts as significant. According to a market potential study funded by Con Edison, the economic potential for natural gas savings in its service territory by 2016 was estimated at nearly 20 million dekatherms—enough to supply more than 166,000 average-style homes. Nearly 16 million dekatherms, or 80 percent of the target, could be achieved by replacing old style gas-burning equipment with new, more efficient models *(Case 06-G-1332).*

Municipal Energy Efficiency Opportunities:

Four municipal utilities—the Village of Freeport (Freeport Electric), the Jamestown Board of Public Utilities, the Village of Rockville Centre, and the Village of Sherburne—in November of 2008 were permitted to expand their ability to offer energy efficiency programs to their customers. These municipal utilities serve more than 46,000 residential and business customers and the total amount expected to be collected annually for the energy efficiency programs is approximately $975,000 *(Case 07-E-1303)*.

IV. Mergers and Acquisitions

Energy East Corporation:

The Commission was publicly briefed by advisory staff of the Department of Public Service in August 2008 regarding the proposed $4.5 billion acquisition of Energy East Corp.—parent of Rochester Gas & Electric Corporation (RG&E) and New York State Electric and Gas Corporation (NYSEG)—by Iberdrola S.A., after a year-long review of Iberdrola's proposal that also included numerous public hearings.

In September of 2008, the Commission voted to authorize the acquisition of Energy East Corporation and its affiliates. The Commission's approval was designed to: enhance ratepayer financial benefits; mitigate vertical market power; protect RG&E and NYSEG's assets and financial condition; improve transmission and distribution reliability; and strengthen service quality. Under the Commission's authorization, RG&E and NYSEG electric and gas customers would receive at least $275 million in benefits *(Case 07-M-0906)*.

Entergy Review Process:

The Commission adopted procedures in May of 2008 for the examination of the petition by Entergy Corporation—the owner, through affiliates and subsidiaries, of three nuclear power plants in New York State—for a decision regarding a proposed corporate reorganization.

Entergy was planning a corporate reorganization whereby a new holding company would assume ownership of the Indian Point nuclear facilities located in Westchester County and the Fitzpatrick nuclear facility located in Oswego County. The new holding company, which would be named Enexus Energy Corporation, would be owned by the existing shareholders of Entergy. Enexus planned to issue up to $6.5 billion in debt in connection with this transaction *(Case 08-E-0077).*

Ravenswood Power Plant:

In August 2008, the Commission approved the transfer of ownership interests in KeySpan-Ravenswood LLC (Ravenswood) and it's Ravenswood Generating Station, approximately 2400 megawatts located in Queens, to TransCanada Facility USA, Inc. (TransCanada). In its decision the Commission concluded that TransCanada's acquisition of Ravenswood and its facilities would not result in a concentration of wholesale generation market ownership that could enable the new owners to exercise horizontal market power. With the expiration of its contract for the purchase of the small amount of 65 megawatts, TransCanada would not own or control any generating capacity in New York *(Case 08-M-0436).*

V. Rates for Utilities' Delivery Services

Consolidated Edison Steam Service:

The Commission voted in September 2008 to approve a two-year rate plan for Consolidated Edison Company of New York's (Con Edison) steam service that would mitigate increases in rates while providing for essential plant investments. Rate increases under the rate plan were levelized so that revenues increased each rate year by $43.7 million. On a total bill basis, the levelized increase was 6.47 percent for each rate year. Also, the plan set forth several safety performance measures and requires customer satisfaction surveys *(Case 07-S-1315).*

Orange & Rockland Electric Delivery Service:

In July of 2008, the Commission adopted a three-year rate plan for Orange and Rockland Utilities, Inc. (O&R) electric delivery service. Rates for the company's electric delivery service had not been increased generally since 1993. Numerous public hearings were held to gather customer input concerning the proposed rate plan.

> *"There is never a good time to increase rates for service, but the Commission would be remiss in discharging its obligation to require utilities to provide safe and adequate electric service to O&R's customers without providing sufficient revenue to do so. The consequences of unsafe and unreliable electric service are not acceptable,"* said Commission Chairman Garry Brown.

Under the rate plan authorized by the Commission, O&R's electric delivery rates would increase $15.6 million in each of the three rate years ending June 30, 2009, 2010 and 2011. This amount results in an increase in total company electric revenues of approximately 2.5 percent per year *(Case 07-E-0949).*

VI. Reliability

Advanced Metering Requirements:

In a major step toward considering utility proposals for advanced metering infrastructure (AMI) systems as a component of Smart Grid, the Commission in February of 2009 required AMI systems in New York to provide a wide variety of functional capabilities, including: meeting American National Standards Institute (ANSI) standards; supporting net metering; providing the ability for a visual read; providing time-interval data; having sufficient memory storage; providing customers with direct, real-time access to electric meter data; meter data that can be read remotely on-demand; utilization of open standards-based communication protocol; two-way communications capability; send signals to customer equipment to trigger demand-response functions; connect with a home area network to provide direct or customer-activated load control; identify, locate and determine the extent of an outage; be up-gradable; and provide safe and secure transfer of data *(Case 09-M-0074).*

Con Edison Demand Response Program:

The Commission authorized in April of 2008 Consolidated Edison Company of New York, Inc.'s (Con Edison) demand response (Rider U) tariff amendments, which are designed to reduce peak demand for electricity. Additionally, the Commission directed Con Edison to file monthly reports on its demand response customer participation and performance, as well as the company's recommended protocols for evaluation of the Rider U-Distribution Load Relief Program (Cases 07-E-0392 and 08-E-0176).

> *"Revisions adopted by the Commission to Con Edison's demand response program are intended to increase enrollment of business, commercial, and industrial customers by providing enhanced compensation to customers that reduce peak demand for electricity on higher priority networks when required to do so, improve system reliability, and lessen the potential for distribution network outages during the summer,"* said Commission Chairman Garry Brown.

Consolidated Edison's Outages:

At its June 18, 2008 meeting the Commission lowered the customer interruption threshold for revenue adjustments associated with the "major outage" performance metric for Consolidated Edison Company of New York, Inc.'s (Con Edison) network (underground) and radial (predominantly overhead) electric systems. This metric applies to all outages, unless they are beyond the control of the company.

Under the terms and conditions of the Commission's 2008 Rate Order, the definition of Con Edison's major outage performance metric was required to be reevaluated in response to the company's 2006 Long Island City network outages and Westchester County outages. The rate order also provided for a $10 million negative revenue adjustment for each major event with a cap at $30 million per calendar year *(Case 07-E-0523).*

Consolidated Edison Steam Proceeding:

In January of 2009, the Commission initiated a proceeding to consider several matters related to Consolidated Edison Company of New York, Inc.'s (Con Edison) steam service. The proceeding would consider potential changes to the current East River Re-powering Project (ERRP) cost allocation method; various steam energy efficiency proposals; the company's Steam Resource Plan; and the expected impact upon Con Edison steam rates of the company's capital improvement plans in conjunction with potential changes to the ERRP cost allocation method and energy efficiency programs *(Case 09-S-0029).*

Electricity Reliability:

In April of 2008, the Commission adopted a Policy Statement to address short-term regulatory reliability backstop issues related to maintaining system reliability. The Commission adopted an approach to cost-recovery which retains the Commission's jurisdiction over the costs of jurisdictional projects which is consistent with the Commission's obligations under the Public Service Law.

> *"The Commission has the ultimate responsibility to ensure the reliability of the bulk power system,"* said Commission Chairman Garry Brown. *"To date, merchant proposals have been and continue to be more than sufficient to maintain reliability in the State. Nonetheless, if regulatory intervention is needed to address the energy reliability needs of the State, the guidelines established today by the Commission provide for a judicious and reasonable selection process for a potential regulated backstop project."*

Subsequently, the Commission in February of 2009 adopted guidelines for a process for reviewing and approving regulated "backstop" projects to facilitate development of new resources, if needed to supplement the market. Regulated backstop projects facilitate development of new resources by ensuring electricity infrastructure is constructed or sufficient if energy demand reductions occur, and if the market is not able to address the energy needs and related public policy goals of the State *(Case 07-E-1507).*

LDCs Improve Safety Record:

Staff of the Department of Public Service presented in June of 2008 its *2007 Gas Safety Performance Measures Report* (Staff Report) to the Commission examining natural gas local distribution companies' (LDCs) performance in three areas pertaining to safety—damage prevention, emergency response and leak management. In addition, staff made recommendations where performance improvements were added.

Overall, the LDCs damage prevention performance improved significantly in 2007 due in part to the availability of the One-Call Centers for contractors, excavators or homeowners available by dialing 811 prior to doing any excavation work or digging. Also, response times to reports of gas leaks or emergencies continued to improve, and the backlog of leaks requiring repairs decreased 54 percent in 2007 *(Case 08-G-0413).*

Natural Gas Utilities Ready for Heating Season:

Once again in October 2008 staff of the Department of Public Service reported to the Commission that the utilities providing natural gas service in the state had adequate supplies, delivery capacity and storage inventory to satisfy customer demands under severe winter design conditions, although capacity remained temporarily tight in some areas.

A multi-agency taskforce was convened to assist consumers in getting through the winter heating season as residential heating customers' bills were expected to be in the range of 7 to 16 percent higher, depending on the local gas distribution company. The taskforce implemented an outreach and education campaign — *HeatSmartNY* — to make consumers aware of ways to reduce energy use, as well as, the services and programs available to them to help manage their energy bills.

New York Regional Interconnect:

The Commission embarked upon hosting 13 public information forums and public statement hearings in October and November 2008, concerning a proposal by the New York Regional Interconnect, Inc. (NYRI), to construct a new, 190 mile high-voltage direct current transmission line from National Grid's substation in the Town of Marcy and Central Hudson Gas & Electric Corporation's substation in the

Town of New Windsor. NYRI's proposal under Article VII of the Public Service was filed with the Commission in May 2006, and deemed complete by the Secretary to the Commission in August 2008 *(Case 06-T-0650).*

Peak Load Reductions:

In February of 2009, the Commission initiated a new proceeding to consider demand response measures to be implemented during peak electricity demand periods. This proceeding seeks to enhance existing programs and develop new demand response programs using a more integrated approach to delivery of these programs among the various program providers.

The initial focus of the proceeding would be on demand response measures in the New York Independent System Operator's (NYISO) Zone J or Consolidated Edison Company of New York, Inc.'s service territory where demand response is expected to be the most cost-effective. The NYISO's Zone J experiences the greatest rate of peak load growth and the highest wholesale energy and capacity costs in the state. The NYISO's Zone J also relies on numerous peaking generation units, some of which are relatively inefficient and produce high emissions *(Case 09-E-0115).*

Utilities' Vegetation Management:

The Commission in December of 2008, noted that major disturbances in electric service can result from fallen tree limbs and overgrown vegetation coming in contact with transmission and distribution lines during storms and urged utilities located in New York State to aggressively pursue tree-trimming and vegetation management practices in accordance with standing agreements in order to help reduce the likelihood that customer lose electricity after a major ice, snow, rain, or wind storm.

In New York, reliable power delivery depends upon the competent maintenance and operation by utilities of more than 15,000 miles of electric transmission lines and some 200,000 of miles of distribution lines.

The Commission stated: *"It is critically important utilities work diligently to safeguard these important infrastructure assets. Rigorous vegetation management is needed to ensure the highest degree of electric system reliability for public safety."*

To help ensure the highest degree of electric system reliability for the benefit of New York State's residents, electric utilities are required under Commission rules, regulations and orders to file with the Commission long-range vegetation management plans to effectively manage transmission facilities rights-of-way in order to minimize power outages due to encroaching tree limbs or overgrown vegetation at the edge of utility rights-of-way.

VII. Renewable Energy

RPS Update:

In an April 2008 update on the Renewable Portfolio Standard (RPS) initiative, it was noted that the RPS continues toward its goal of having 25 percent of the state's energy come from renewable sources by 2013. Since its creation by the Commission in September 2004, the initiative has supported development of 1,345 megawatts of renewable electricity, mainly wind and hydro. In 2007, nearly $267 million was contracted for renewable energy attributes in New York under RPS auspices, an increase of 49 percent from $178 million in 2006.

"The generation of electricity from renewable sources increases energy diversity and promotes a better environment for us all," said Chairman Garry Brown. *It is critically important to strengthen and promote renewable energy and other types of earth-friendly initiatives in New York. These are fundamental initiatives that will benefit us all in the future."*

Based on certifications approved by the Commission to date, electricity generated from non-hydro sources reached a record 3,428 gigawatt hours (GWh) in 2007, enough power for more than 300,000 homes in New York, and representing an increase of 2.3 percent from 3,006 GWh in 2006.

Also, the number of companies offering electricity generated from renewable energy sources such as solar, wind, biomass and small or low-impact hydropower had grown substantially. In addition to the major utilities, nearly 20 private-sector energy service companies offer consumers the option to purchase green power.

The benefits of the RPS program have been significant and include diversifying the generation resource mix to improve energy security and independence, attracting economic benefits from renewable resource generators, manufacturers, and installers to New York State, and improving New York's environment by reducing air emissions and other adverse environmental impacts of electricity generation. An evaluation of the RPS program was due at the end of 2009 from the program's administrator, the New York State Energy Research and Development Authority *(Case 03-E-0188).*

Marble River Wind Project:

In June of 2008, the Commission authorized the construction and operation of the Marble River wind energy project capable of generating up to 229 megawatts of electricity in the Towns of Clinton and Ellenburg in Clinton County. The project is expected to connect to an existing New York Power Authority transmission line.

When constructed, the project would be the second largest individual wind energy project in New York. The largest is the 320-megawatt Maple Ridge in Loweville, Lewis County. Marble River is located near two other wind farm projects—Noble Clinton and Noble Ellenburg—making the local communities in Clinton County a major wind energy generation site. The developer estimates the annual economic impact in the area would be more than $5 million *(Case 07-E-1343).*

Noble Wethersfield Wind Project:

In April of 2008, the Commission approved the construction plans for a 5.6 mile 230 kV transmission line along with necessary infrastructure improvements needed for the construction of a 127-megawatt Noble Wethersfield wind farm project in Wyoming County. In December 2007, the Commission granted Noble Wethersfield Windpark LLC a Certificate of Environmental Compatibility and Public Need to construct the overhead electric transmission line and associated substation and switchyards. The transmission facility would connect the Noble Wethersfield generation project's electric output to an existing transmission line owned by New York State Electric and Gas *(Case 07-T-0140).*

VIII. Safety

"Call Before You Dig" Regulations:

Under the Commission's "Call Before You Dig" regulations, adopted to protect the public's safety and general welfare, excavators, contractors and homeowners are required to call one of the state's toll-free one-call centers by simply dialing 811 before starting any excavation or digging project. The state's one-call notification system is a fast, easy, and comprehensive way to ensure underground facilities are properly marked before a digging or excavation project begins. As a reminder to the public, Governor

David A. Paterson proclaimed April 7 through April 11, 2008, “Dig Safely Week” in New York State. The month of May 2008 was designated as the “National Safe Digging Month.”

Electric Safety Standards Strengthened:

In December of 2008, the Commission strengthened and clarified requirements of its electric safety standards. The Commission determined that all equipment used for stray voltage testing must be certified and able to reliability detect voltages of 6 to 600 volts. In the event of a finding on an electric facility or streetlight during testing for stray voltage, a utility would be required to further test for stray voltage on all publicly accessible structures and sidewalks within a minimum 30-foot radius of the point of a finding of stray voltage. The utility must make an area safe upon any finding of stray voltage.

Also commencing in 2009, the Commission would require mobile survey testing for underground distribution systems in appropriate areas of cities with populations of 50,000 or more. Mobile survey testing for stray voltage detection on underground facilities has been in effect for the City of New York.

Additionally, as part of the revised inspection process, the Commission established a common system to categorize deficiencies identified by utilities for repair. This process established expected timeframes for repair based upon the severity of the deficiency. These changes provide for more uniformity and accountability for safety and operational repairs of electric facilities *(Case 04-M-0159).*

IX. Telecommunications

Cable Franchise NYC-Verizon:

In July of 2008, the Commission granted a certificate of confirmation to Verizon New York Inc. (Verizon) for its franchise with the City of New York (New York, Bronx, Queens, Kings, and Richmond Counties). The Commission's certificate allows Verizon to provide direct competition to other cable providers in New York City.

Under the terms of the franchise agreement, Verizon would be required to build-out the entire City within six years, rather than within five years of the approval of its franchise, unless additional extensions are granted under the terms of the franchise agreement with the City. The agreement also provides for city-wide public, educational and governmental (PEG) comprehensive access structure that far exceeds the minimum requirements under the Commission's rules *(Cases 08-V-0624 and 08-V0947)*.

NYC-211 Calls:

In 2008 New York City implemented a program to utilize the 211 abbreviated dialing code to provide the public with an easy to use, easy to remember means of accessing community information and referral services. Callers located within the City would be able to dial 211 and be referred to organizations providing services such as health and welfare counseling, child care solutions, housing assistance, and hospice services. The 211 callers would be connected to call takers at the City's existing 311 call center, through which 211-type information and referral services would be available.

In May of 2008, the Commission ordered telephone companies that provide Caller ID blocking service to their customers to 'unblock' the transmission of the name and number information when one of their customers dials 211 to reach the City's call center. The Commission's decision was based on the anticipation that some calls to 211 may be emergencies that would be transferred to 911. The City had indicated that there is a need to ensure that when 211-dialed calls are transferred to 911, and Caller ID information is needed to locate the caller *(Case 07-C-1091).*

SAFE-T Program:

The Commission in May of 2008 initiated a proceeding to evaluate and develop the potential benefits of a standardized facility and equipment transfer (SAFE-T) program. The program is intended to enhance the coordination, communications, monitoring and notification relating to facility transfers between utility poles owned by electric and telephone companies.

The Commission noted that the removal of older, often structurally unsound poles, had not kept pace with new installations. This often results in partial transfer of facilities and the placement of old and new poles in close proximity until the transfer is complete. In the interest of public safety and to lower costs, the Commission in its proceeding seeks to establish better coordination efforts between utilities transferring facilities and equipment to new poles and to speed the removal of old poles *(Case 08-M-0593).*

Telephone Service Commendations:

The Commission issued in March of 2009 letters of commendations to 54, out of a possible 75, local telephone companies or telephone company operating divisions throughout the state for providing excellent service to customers in 2008. Most small incumbent local exchange carriers qualify for a commendation, as do most eligible competitive local exchange carriers. Four of 11 operating divisions for Verizon New York Inc., are included in this groups, as is one of Frontier Telephone of Rochester, Inc.'s three divisions and both of Windstream New York, Inc.'s two divisions.

The Commendations for excellent service are based on telephone companies' performance in relation to service quality standards established by the Commission. The criteria used to grant a commendation for excellent service included an evaluation of customer trouble report rates (CTRR) and the number of consumer complaints received by the Commission. This year marks the 21^{st} year that the Commission has recognized companies for providing exemplary service. The 54 companies or operating divisions on the list below meeting the criteria for Commendation for Excellent Service quality provided in 2008, included:

Year 2008 Service Quality Commendations for Telephone Companies and/or Various Operating Divisions

Company	Threshold CTRR [1]	PSC Complaint Rate [2]	Incentive Plan[3]	Commendation Record	Consecutive Year's Made
Armstrong	100%	0.00	N/A	15 of 21	Third
AT&T - ACC Corporation	100%	0.00	N/A	6 of 7	Fourth
AT&T- AT&T Local Services	100%	0.01	N/A	6 of 8	Sixth
AT&T Long Distance	100%	0.00	N/A	3 of 3	Third
Cablevision Lightpath	97%	0.00	N/A	11 of 11	Eleventh
Cassadaga	100%	0.00	N/A	17 of 21	Sixteenth
Champlain	97%	0.00	N/A	17 of 21	Tenth
Chazy & Westport	100%	0.00	Met	15 of 21	Third
Choice One Communications	100%	0.03	N/A	4 of 9	Third
Citizens of Hammond	100%	0.56 *	N/A	17 of 21	Thirteenth
Convergent Telesis	100%	0.00	N/A	4 of 5	Fourth
Conversent Communications	100%	0.00	N/A	2 of 5	Second
Crown Point	100%	0.00	Met	16 of 21	Sixteenth
Delhi	100%	0.00	N/A	13 of 21	Fourth
Deposit	100%	0.00	N/A	17 of 21	Seventeen
Dunkirk & Fredonia	100%	0.00	N/A	20 of 21	Twentieth
Edwards	96%	0.00	N/A	16 of 21	Third
Empire	100%	0.00	N/A	10 of 21	Third
Fishers' Island	100%	0.00	N/A	19 of 21	Nineteenth
Frontier Communications of America	100%	0.00	N/A	7 of 7	Seventh
Frontier of Rochester - Metro East	99%	0.06	Met	9 of 18	Fourth
Frontier of Sylvan Lake	100%	0.00	N/A	13 of 21	Fifth
Germantown	100%	0.00	N/A	20 of 21	Twentieth
Global Crossing Local Services	100%	0.00	N/A	9 of 10	Sixth
Hancock	100%	0.00	N/A	20 of 21	Twentieth
Margaretville	100%	0.00	N/A	20 of 21	Twentieth
Middleburgh	97%	0.15*	N/A	15 of 21	Fourteenth

[1] Customer Trouble Report Rate (CTRR) is based on 95% or more of a company's monthly central offices performance results in a given year per central office being in the performance range of 0-3.3 reports per 100 lines (RPHL).

[2] PSC Complaint Rate is the number of complaints per 1,000 access lines per year; the commendation level is 0.075 or less.

[3] Incentive Plan includes any service-related requirements of a multi-year rate plan, an incentive plan or separate Commission Order directing service improvements.

* Result is above the .075 commendation level, but only involves 1 complaint.

Year 2008 Service Quality Commendations for Telephone Companies and/or Various Operating Divisions

Company	Threshold CTRR [1]	PSC Complaint Rate [2]	Incentive Plan[3]	Commendation Record	Consecutive Year's Made
Newport	100%	0.00	Met	15 of 21	Tenth
Nicholville	100%	0.00	N/A	12 of 21	Tenth
Ogden	100%	0.07	N/A	21 of 21	Twenty One
Oneida County	100%	0.00	N/A	19 of 21	Nineteenth
Ontario	100%	0.00	N/A	15 of 21	Fifth
Oriskany Falls	100%	0.00	N/A	17 of 21	Eleventh
PAETEC Business Services	100%	0.00	N/A	4 of 5	Fourth
PAETEC Communications	100%	0.01	N/A	4 of 5	Fourth
Pattersonville	100%	0.00	N/A	21 of 21	Twenty One
Primelink, Inc.	100%	0.00	N/A	3 of 5	Second
RCN Telecom	100%	0.00	N/A	10 of 10	Tenth
State	100%	0.00	N/A	18 of 21	Fourth
Tech Valley Communications	100%	0.00	N/A	6 of 8	Fifth
Township	95%	0.00	N/A	15 of 21	Fifth
Trumansburg	97%	0.00	N/A	8 of 21	First
twtelecom	100%	0.00	N/A	10 of 11	Eighth
Verizon - Bronx	98%	0.04	N/A	4 of 21	Second
Verizon - Manhattan North	100%	0.05	N/A	6 of 21	Fifth
Verizon - Manhattan South	100%	0.04	N/A	10 of 21	Sixth
Verizon - Queens	96%	0.07	N/A	4 of 21	First
Vernon	100%	0.00	N/A	17 of 21	Fifth
Warwick Valley	100%	0.00	N/A	15 of 21	Second
Westelcom Networks	100%	0.42 *	N/A	3 of 6	Third
Windstream (Fulton)	96%	0.00	Met	16 of 18	Fifth
Windstream (Jamestown)	96%	0.00	Met	11 of 18	Third
Westelcom Networks	100%	0.42 *	N/A	3 of 6	Third
XO Communcations	100%	0.00	N/A	3 of 3	Third

[1] Customer Trouble Report Rate (CTRR) is based on 95% or more of a company's monthly central offices performance results in a given year per central office being in the performance range of 0-3.3 reports per 100 lines (RPHL).

[2] PSC Complaint Rate is the number of complaints per 1,000 access lines per year; the commendation level is 0.075 or less.

[3] Incentive Plan includes any service-related requirements of a multi-year rate plan, an incentive plan or separate Commission Order directing service improvements.

* Result is above the .075 commendation level, but only involves 1 complaint.

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