NYS Department of Public Service

Annual Report

2014 – 2015

Audrey Zibelman
Chair

Andrew M. Cuomo
Governor

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DEPARTMENT OF PUBLIC SERVICE

ANNUAL REPORT (FY 2014-15)

(April 1, 2014 - March 31, 2015)

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 . . .

The most significant initiative the Commission continued to pursue in the 2014 – 2015 Fiscal Year was moving Governor Andrew M. Cuomo's groundbreaking Reforming the Energy Vision (REV) plan from the conceptual stage to actual deployment and implementation. In addition, the Commission focused significant efforts in two other areas: strengthening reliability and improving affordability.

Under Governor Cuomo's REV, New York State is spurring clean energy innovation and attracting new investment to build a cleaner, more resilient and affordable energy system for all New Yorkers. REV encompasses groundbreaking regulatory reform to integrate clean energy into the core of our power grid, redesigned programs and strategies to unlock private capital, and active leadership in deploying innovative energy solutions across the State's own public facilities and operations. REV will enable a dynamic, clean-energy economy operating at a scale that will stimulate opportunities for communities across the state to create jobs and drive local economic growth, while protecting our environment by reducing greenhouse gas emissions and other pollutants.

The Department's role in REV is to align the regulatory landscape with the overarching state policy objectives of giving customers new opportunities for energy savings, local power generation, and enhanced reliability to provide safe, clean, and affordable electric service for all customers, with a particular focus on helping low- and moderate income customers, protecting the environment, improving public safety and creating jobs and economic opportunity.

The public is craving these improvements. Since the PSC launched its REV regulatory proceeding, there has been robust participation in our public process, with hundreds of engaged parties in the case, productive stakeholder working groups dedicating thousands of cumulative work hours to the effort, and packed technical conferences and public hearings across the State.

In its February 26, 2015 order laying out new regulatory reforms that are part of the first phase of REV, the Commission noted that the electric industry is in a period of momentous change. The innovative potential of the digital economy has not yet been accommodated within the electric distribution system. Information technology, electronic controls, distributed generation, and energy storage are advancing faster than the ability of utilities and regulators to adopt them, or to adapt to them. At the same time, electricity demands of the digital economy are increasingly expressed in terms of reliability, choice, value, and security.

For the Commission, cost is always a driving concern. Aging infrastructure, declining system efficiency, and flat sales growth place pressure on rates, and imply increases under a business-as-usual approach. Meanwhile, the trend toward affordability of self-generation threatens to create an unacceptable gap between those who can choose to leave the grid and those who cannot, with implications for the obligation to ensure reasonably priced and reliable service.

Strengthening Reliability:

In the Alternating Current Transmission Upgrades proceeding, the Commission determined the extent of the need for relief of persistent transmission congestion that exists along the Mohawk and Hudson Valley transmission corridors, and approved a process to narrow the field of potential projects that may be needed to address transmission congestion. We also established a policy that would allow a 10-month expedited review process for future electric transmission projects that can be built within existing utility and State-owned rights of way; and established procedures for the identification of public policy requirements to factor into future energy infrastructure planning.

To ensure that customers are provided with safe and reliable service, the Commission launched an independent investigation following a natural gas explosion in East Harlem in March 2014 that resulted in eight fatalities and over 40 injuries. Along with addressing the need to ensure that consumers would report natural gas odors, Department staff worked with Con Edison on a pilot project to investigate technologies for quantifying methane emissions from non-hazardous leaks in the company’s distribution system.

To further strengthen Con Edison’s electric, natural gas and steam distribution system, the Commission approved the company’s storm-hardening and resiliency plan for 2015, under which the company will invest nearly $375 million.

Following through on its strengthened regulatory oversight, put forth in Governor Cuomo’s 2013-2014 budget, the Commission finalized its comprehensive management and operations audit of National Grid USA’s three natural gas companies — Niagara Mohawk, Brooklyn Union Gas, and KeySpan Gas East — with the release of the final audit report which contained 31 recommendations to improve efficiency, accountability and effectiveness.

Improving Affordability:

In addition to working to ensure that utility service is safe and reliable, the Commission also strives to ensure that it is affordable. In this vein, the Commission adopted terms of a customer-friendly, community-supported joint proposal that included a two-year rate freeze for National Fuel Gas Distribution Corporation residential and commercial customers, and set aside funding for home weatherization projects and furnace replacement programs for low-income customers.

The Commission continued to address issues affecting low-income customers by directing that new consumer safeguards be developed to protect energy service company (ESCO) customers, particularly those who participate in utility low-income assistance programs. The new protections ensure that low-income customers pay no more for energy from an ESCO than they would from their local utility, and addressed door-to-door and telephonic marketing sales.

In conclusion, the actions taken by the Commission and Department in FY14-15 will not only ensure affordable, safe, secure and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business customers, while protection the natural environment, they will also continue to advance the Governor's REV initiative from a conceptual framework to deployment and application.

Audrey Zibelman, Chair

INTRODUCTION

Introduction:

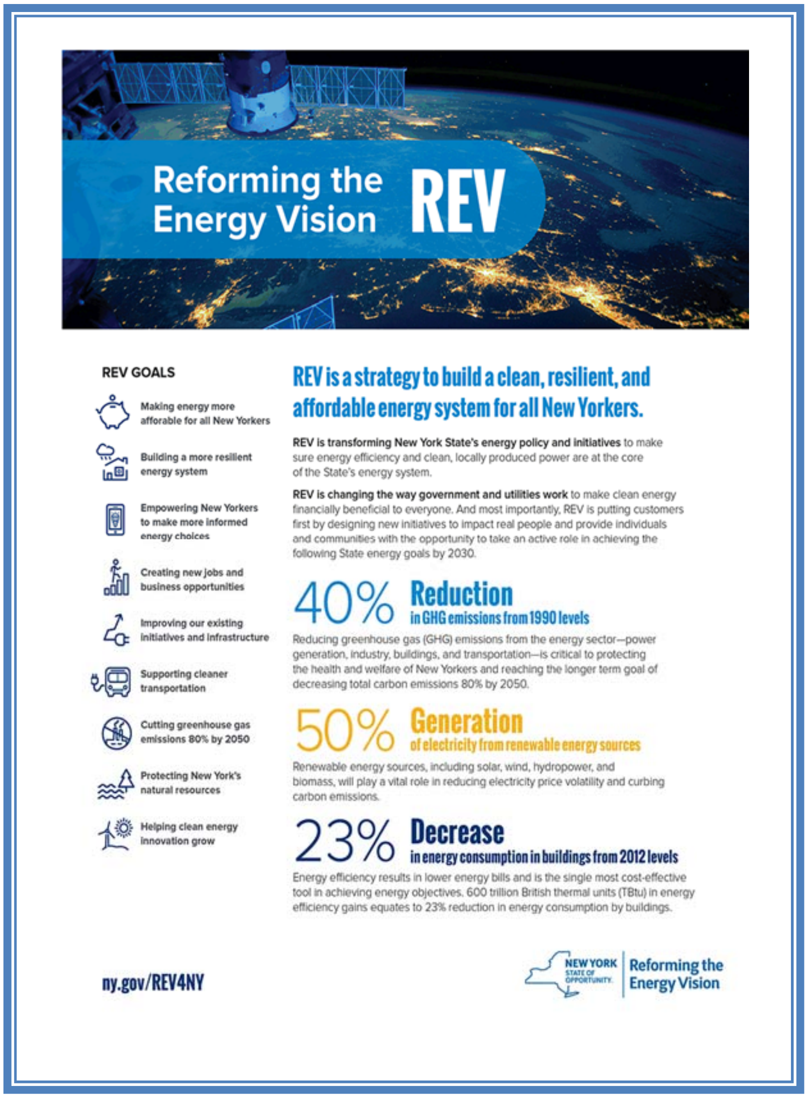
The availability of reliable, resilient and affordable electric and natural gas service is critical to the welfare of citizenry and is essential to New York's economy. From April 1, 2014 to March 31, 2015, the New York State Public Service Commission continued to fulfill its mission to ensure affordable, 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. It also continued to seek to stimulate effective competitive markets that benefit New York consumers through strategic investments, and encouraged development of new innovations.

To carry out its mission, the Commission actively and proactively pursued several significant initiatives and proceedings (e.g., REV, renewable energy, transmission upgrades, gas safety, repowering, storm hardening, low income protections, telecommunications mergers, and much more) while addressing such questions and challenges as how to ensure continuing economic growth and prosperity in NYS; eliminate barriers that block deployment of distributed energy resources and hold back development of clean energy innovations; ensure the safety of the natural gas pipeline; and ensure customers benefit from the creation of economically and environmentally sustainable energy markets.

Major Department Initiatives:

Reforming the Energy Vision (REV)

Since Governor Cuomo unveiled plans in April 2014 for the Reforming the Energy Vision (REV) modernization initiative that will fundamentally transform the way electricity is distributed and used in New York State, the Public Service Commission (Commission), as the State's energy regulator, took several major actions to move REV from the conceptual stage to actual deployment and application.



REV aims to reorient both the electric industry and the ratemaking paradigm toward a consumer-centered approach that harnesses technology and markets. Distributed energy resources will be integrated into the planning and operation of electric distribution systems, to achieve optimal system efficiencies, secure universal, affordable service, and enable the development of a resilient, climate-friendly energy system.

The need to revise our regulatory approach is both evident and profound. Based on planning reports filed by the State's regulated investor-owned utilities, over $30 billion will need to be invested in utility delivery infrastructure over the next decade in order primarily to replace aging infrastructure required to maintain current system capabilities, compared with the $17 billion invested over the past 10 years.

Given these facts, we need to create incentives to help consumers reduce peak usage, and we need to create sufficient price signals and value for consumers who are willing to take control of their energy usage or businesses that want to use their own clean resources to reduce their demand in order to reduce costs or increase reliability.

To accomplish this, we are aligning regulation with technology and market innovations that will enable New York to meet the challenges presented by aging infrastructure, declining system efficiency, flat sales, and climate change.

It is evident that a business-as-usual approach will no longer work. Building a new electric industry has forced the State to question traditional methods and assumptions, revealing a pathway toward a more efficient, customer-friendly and sustainable model.

Strategic investments in the bulk transmission and generation system will be necessary to ensure a flexible, efficient, clean and reliable system, but integrating more distributed resources will reduce traditional utility infrastructure investments, thus reducing costs to consumers. A more distributed system will also improve system resiliency and give consumers more choices.

As the Commission pursues the regulatory actions necessary to advance REV, we will be innovating and protecting low income customers and we will continue to protect the environment and increase public safety.

In the REV regulatory proceeding in FY14-15, the Commission adopted a policy framework and implementation plan for a reformed retail electric industry, and we approved implementation of the State's first Community Choice Aggregation pilot program that allows municipalities to put out to bid the total amount of natural gas or electricity purchased by local residents and small businesses.

On the renewable energy front, we demonstrated the State's strong commitment to growing the clean energy economy when the Commission changed the Renewable Portfolio Standard (RPS) program to help increase the number of large scale renewable energy projects being built.

Following the April unveiling of REV and launch of the Commission's regulatory proceeding, the Staff of the Department of Public Service issued a Staff Report and Proposal on REV that proposed a platform to transform New York's electric industry, for both regulated and non-regulated participants, in order to create market based, sustainable products and services that drive an increasingly efficient, clean, reliable, and consumer-oriented industry.

To move the process forward, the Commission's REV regulatory proceeding moved along two tracks. Track One has been exploring the role of distribution utilities in enabling system-wide efficiencies and market-based deployment of distributed energy resources (DER) and load management. It is also considering the role of the incumbent electric utilities and whether they should serve as the Distributed System Platform (DSP) provider, the entity that will manage and coordinate DER, as well as wholesale market issues and opportunities for customer engagement.

Track Two is addressing the regulatory changes and ratemaking issues that will be necessary to implement the REV vision.

To advance the State's REV initiative, in May of 2014, the Commission held a unique symposium in Albany with state and national energy experts to discuss the future of the energy grid in New York State.

In addition, to bridge the transition from the current portfolio of clean energy programs to the new REV market and required regulatory framework, and to reinforce New York's commitment to accelerate the growth of the clean energy economy, the Commission launched the Clean Energy Fund proceeding. The Clean Energy Fund will provide long term funding certainty to local businesses and significant flexibility to the administrators of the State's clean energy programs. The Fund will grow clean energy benefits by leveraging ratepayer funds through market-based solutions, and it will reduce future ratepayer surcharges.

At a day-long technical conference in Albany on July 10, 2014, the REV Track One working groups reported their findings to the Commission on markets, customer engagement, platform technologies, and microgrids. A month later, Department of Public Service staff issued a straw proposal that offered numerous recommendations for the Commission to consider in the REV proceeding including, the identity of the DSP, the extent to which electric utilities will be permitted to engage in the DER market, access to customer data and utility energy efficiency programs.

To advance the REV and Clean Energy Fund initiatives that promote more efficient use of energy, allows deeper penetration of renewable energy resources, and encourages wider deployment of distributed energy resources, such as micro-grids, on-site power supplies, and storage, the Commission also issued the Draft Generic Environmental Impact Statement for comment in October, and adopted the Final Generic Environmental Impact Statement in February 2015.

The Commission conducted a technical conference on REV in November 2014 to allow parties to have a dialogue with the Commissioners on critical policy issues related to the DPS Staff's straw proposal; including: the steps needed to create an attractive market for DER investment in New York State, the kind of system information is needed to foster a market; and customer information.

In February 2015, the Commission took a significant step in the REV proceeding when it adopted a regulatory policy framework and implementation plan for a reformed retail electric industry. The framework identified issues needing immediate resolution, discussed issues needing further development, and specified a process for moving forward.

A hallmark of the REV proceeding has been robust public involvement and participation since the outset. In January and February of 2015, the Commission conducted a series of informational forums and public statement hearings across the State to seek public input on REV. More than 750 people attended these hearings, and 240 spoke on the record with a large majority supporting the REV goals to deploy distributed energy resources.

Moving from the conceptual stage to implementation, in February, the Commission approved implementation of the State's very first Community Choice Aggregation (CCA) pilot program, and provided guidance on net metering of solar power. The CCA pilot program by Sustainable Westchester, Inc., a not-for-profit organization comprised of several municipalities in Westchester County, is a cutting-edge initiative that allows municipalities to put out for bid the total amount of natural gas or electricity being purchased by local residents or small businesses effectively giving them more control to lower their overall energy costs.

With regards to the net metering of solar power, the Commission provided new guidance when it announced that renewable energy development companies and utilities will have more time to transition away from existing rules related to the amount of financial credits provided to certain types of net-metered projects to ensure a more fair and reasonable process.

To prevent disruption of ongoing net-metered generation projects that were already underway, the Commission stayed its prior decision that restricted how customers with multiple locations could participate in net metering programs. The Commission also postponed its rule requiring utilities to file new tariffs that were intended to resolve concerns about how such customers are compensated, and decided not to restrict the grandfathering of solar projects already underway to allow for the consideration of other methods of accomplishing the transition.

Developing smart grids is an integral part of the Commission's REV proceeding, which calls for identifying smart grid technologies to facilitate increased distributed power generation to promote electricity load management and greater system efficiency. In July 2014, Governor Cuomo announced that $3.3 million had been awarded to seven research teams to develop technologies that add resiliency and efficiency to New York State's electric grid. These "smart grid" technologies will use innovative methods to enhance grid performance, reduce the risk of power outages and lessen environmental impacts and energy consumption, while reducing the cost of power delivery.

The projects were awarded support from the NYSERDA Electric Power Transmission and Distribution Smart Grid Program. A smart grid is a modernized electrical grid that uses technology to gather and act on information in an automated fashion to improve the efficiency, reliability, economics and sustainability of the production and distribution of electricity.

Transmission Upgrades

Expedited Review Process:

In support of Governor Cuomo's objectives to encourage innovation and use existing rights-of-way so that New York experiences the smart growth of the electric grid with the least impact to the environment and communities, last August 2014 the Commission established a policy that would allow for a 10-month expedited review process, under its Article VII rules, for future electric transmission projects that can be built within existing utility or State-owned rights of way. The new policy encourages the use of advanced technologies that may increase the throughput of electric facilities that could potentially avoid the need for additional transmission facilities in the future.

In a related but separate action, the Commission established procedures for the identification of public policy requirements that will be factored into future energy infrastructure planning. While the Commission already considers many factors in its consideration of infrastructure needs, such as system reliability and efficiency, reduced environmental and health impacts, and job growth, this action will enable the Commission, in conjunction with the New York Independent System Operator, Inc. (NYISO), to align its infrastructure planning with specific public policies.

Alternating Current Transmission Upgrades:

In the Alternating Current Transmission Upgrades proceeding, the Commission explained that constraints on the State's electric transmission system can lead to significant congestion that contributes to higher energy costs and reliability concerns. It found that upgrading the system to reduce such congestion could enhance system flexibility and efficiency, reduce environmental and health impacts associated with electricity production, increase supply diversity, promote lower cost generation

Article VII Cases Approved by the PSC FY 2014-2015

A&C Lin (13-T-0469) — 3/30/15 — Dutchess County
Rebuild 11 miles of existing Central Hudson 115kV line

Arkwright-to-Dunkirk (14-T-0458) – 2/26/15 — Dunkirk, Chautauqua County
9.5 mile pipeline to supply the Dunkirk Generating Station with natural gas

Sturgeon Pool (14-T-0273) – 2/15 — Rosendale, Ulster County
New Central Hudson Substation on existing electric transmission line

Marcy-South Series Compensation (13-T-0515) – 10/27/14 — Delhi, Delaware County
NYPA Shunt reactors added to existing electric circuits

Sugarloaf-Rock Tavern (13-T-0586) – 10/27/14 – Chester and New Windsor, Orange County
Con Edison substation upgrades and add 11.8 mile 345 kV circuit to existing electric line

Arlington Tap (14-T-0374) – 10/2/14 — Reading, Schuler County
4,400 feet of 4" natural gas pipeline on the property of US Salt

5 Mile Substation (13-T-0077) – 8/22/14 — Humphrey, Cattaraugus County
New National Grid Substation to reinforce western NYS electric system

EMKEY Gathering (14-T-0206) – 8/7/14 — Busti, Chautauqua County
1.5 miles of 4" gas pipeline

Alliance Energy (13-T-0534) – 3/31/14 — Syracuse, Onondaga County
Relocation of 1,720' of natural gas transmission line

in upstate areas, and mitigate potential problems arising from generator retirements.

In light of the REV initiative to promote more efficient use of energy, deeper penetration of renewable energy, and greater use of distributed energy resources, and requests to reexamine the extent of the need for transmission upgrades in the congested region that exists along the Mohawk and Hudson Valley transmission corridors, in December 2014, the Commission announced that it would determine the exact extent of the need for relief of persistent transmission congestion that exists along the Mohawk and Hudson Valley transmission corridors.

The Commission also approved a process to narrow the field of potential projects that may be needed to address the transmission congestion. It also adopted a schedule, cost allocation and risk-sharing mechanisms, and a method for cost recovery; and adopted an approach for ensuring cost recovery through Federal Energy Regulatory Commission-approved tariffs.

In February 2015, the Commission issued a new procedural ruling regarding the Rochester Area Reliability Project, under which Rochester Gas and Electric (RG&E) Corporation plans to build new transmission lines and a new substation in Monroe County. The Commission's ruling proposed that RG&E be required to conduct further studies of an alternative site for the substation that would avoid impacts to a working farm.

RG&E began negotiating with owners of the Ginna nuclear power plant over an arrangement to keep the power plant running until RG&E could make alternate arrangements to meet the reliability needs for electricity in its service territory. While exploring options for a system that would be less dependent on power from Ginna, RG&E arrived at a solution that also provides benefits while delaying the immediate need for the proposed $254 million Rochester Area Reliability Project.

Winter Impact Initiatives

Following unusually cold weather that gripped New York in the 2014 winter, Chair Audrey Zibelman participated in a roundtable discussion in April in Washington, D.C., with the Federal Energy Regulatory Commission (FERC) and other state energy regulators to discuss the impacts of the winter weather on the wholesale energy market, and actions taken by regional transmission organizations and independent system operators in response.

The following month, the Commission conducted a day-long technical conference in Albany to examine how extreme weather caused tight energy supply conditions and contributed to gas and electric price increases during the past winter.

In addition, to address how the winter weather caused wholesale energy prices to surge, making it difficult for some consumers to manage their utility bills, the Commission requested that FERC undertake a review of the natural gas markets.

In April 2014, the Commission presented new information to FERC that showed downstate consumers faced even higher energy prices than expected in the summer ($280 million versus $230 million) as a result of FERC's decision to create a new capacity zone in the lower Hudson Valley.

The Commission has staunchly opposed the imposition of the new capacity costs; arguing instead to allow the State 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.

Based on the Commission's analysis, unless FERC decided to cancel or suspend its controversial decision to restructure wholesale price rules in the lower Hudson Valley, consumers in that part of the state would see a $280 million annual increase in electricity bills — 22 percent more than what was predicted just a few weeks earlier.

In November 2014, the Commission also held a first-ever joint technical conference with FERC on to discuss the installed capacity markets and energy infrastructure in New York, and to review the role of New York's centralized capacity market in attracting investment and ensuring resource adequacy and reliability.

Finally, to avoid a repeat of the large price increases that occurred in winter 2013, last October the Commission announced that utilities and third-party energy providers agreed to provide customers with more information and more refined tools to help customers manage their energy bills. The Commission also expanded its own outreach efforts, and launched its enhanced Power-to-Choose website to help residential and small commercial consumers identify energy products to meet their needs to help control energy costs. The Commission also asked third-party providers, or Energy Service Companies (ESCOs), to work toward reducing or eliminating sudden and unexpected commodity price increases.

Gas Safety, Rates, Audits, and Expansions

East Harlem Explosion Investigation:

Ensuring natural gas safety is paramount to the Commission. In March of 2014, the Department launched an independent investigation of the gas explosion in East Harlem pursuant to its authority under State law. The tragic incident led to eight fatalities and more than 40 injuries. Department staff began a comprehensive investigation to determine contributing factors in order to make recommendations, where appropriate, to mitigate the possibility of this type of incident from reoccurring.

East Harlem Gas Explosion March 2014

In May 2014, Commission Chair Audrey Zibelman directed Consolidated Edison Company of New York, Inc. (Con Edison) to meet with Department staff to establish whether Con Edison was effectively managing the increased work it was conducting as a result of a greater number of gas odor calls made since the natural gas explosion in East Harlem, and how Con Edison was addressing other related work requirements.

To further improve the overall safety and reliability of the natural gas distribution system on Long Island and help protect the environment from harmful methane gas emissions, last December the Commission ordered KeySpan Gas East Corporation of Long Island (KEDLI) to accelerate the replacement of leak-prone pipe in an effort to harden the system to help prevent future outages from storms.

National Fuel Rate Freeze:

Along with ensuring natural gas safety, the Commission strives to ensure that electric and natural gas service is reliable and affordable. In May, the Commission adopted terms of a customer-friendly, community-supported joint proposal that included a two-year rate freeze for National Fuel Gas Distribution Corporation (NFG) residential and commercial customers through September 30, 2015. The agreement also required the utility to refund $5.5 million to ratepayers (approximately $1.77 million would be refunded to non-residential customers, and $3.73 million to residential customers) and set aside $2 million to fund home-weatherization projects and a furnace replacement program for low-income customers.

The joint proposal provided for an additional $12.50 per month discount for eligible low-income customers during winter heating months; funding for a new pilot gas expansion program; improved gas safety metrics; increased financial risk for shareholders for failing to meet performance standards; established a collaborative to investigate expanding a low-income gas supply program; increased spending on removal of leak prone pipe by $8.2 million annually; and provided $1 million annually in rates to support economic development in Western New York.

National Grid Audit:

As part of the Commission's vigorous management audit program of the state's

PSC Major Rate Case Decisions FY 2014-2015

National Fuel Gas

- As a result of a PSC initiated investigation into the company's earnings level, ratepayers received $7.5 million in benefits.
- $2 million set aside for weatherization and a finance replacement program for low income customers.
- Additional $12.50 monthly discount for eligible low-income customers during winter.

United Water New York

- Requested to increase revenues by $21.3 million (28.9 percent).
- The PSC limited the increase revenues to cover increases in local property taxes and required investments in the water system plus small increases in labor and other operating expenses.
- As a result, the company was only allowed to increase rates by $9.8 million (13.3 percent), the minimal amount required by State law.
- Saved customers $7.9 million in the first year of the new rate plan.

United Water New Rochelle and United Water Westchester

- Filed a joint request to increase revenues by $14.4 million (23 percent) over a one-year period.
- PSC limited the increase in revenues to cover increases in operational expenses, property taxes, and other expenses.
- Combined, the water companies will increase rates by only $10.2 million (16.3 percent), over three years to minimize customer impact.
- Saved customers $4.2 million compared to the companies' initial request.

largest electric and gas utilities, and consistent with requirements set forth in Governor Cuomo's 2013-2014 Budget that strengthened the Commission's regulatory oversight of utilities, last October the Commission finalized its comprehensive management and operations audit of National Grid USA's three natural gas companies — Niagara Mohawk, Brooklyn Union Gas, and KeySpan Gas East — with the release of the final audit report. The audit examined existing functions, processes, systems, and organizations, as well as past performance, for the purpose of defining prospective changes that will improve future performance.

The final report contained 31 recommendations to improve the efficiency, accountability and effectiveness of National Grid in general and the gas companies in particular, including: reconstituting the boards of directors of National Grid USA and the New York gas companies to provide more objective oversight; establishing direct reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for the company's New York; developing an integrated natural gas system-wide plan; and enhancing intercompany service agreements.

Con Edison Gas Pilot:

In support of Climate Week's emissions reduction goals, in September 2014 the Commission staff began work with Consolidated Edison Company of New York, Inc. on a pilot project to investigate technologies for quantifying methane emissions from non-hazardous leaks on Con Edison's gas distribution system and develop a program to further reduce the backlog of such leaks. Methane is the second most prevalent greenhouse gas emitted in the United States from human activities. Replacing leak-prone pipe is one way to reduce the occurrence of all leaks, including non-hazardous gas leaks. Gas utilities in New York have 12,321 miles of leak-prone pipe inventory, and 66 percent is located in New York City and Long Island.

Gas Expansion:

In keeping with one of its major objectives to expand natural gas service, in July 2014, the Commission approved New York State Electric and Gas Corporation's (NYSEG) request to expand natural gas service to the Town of Plattsburgh, Clinton County, and directed the company to begin construction of gas service, with an expected completion date of 2017. As a result, NYSEG will be able to supply natural gas to residents and businesses who have long sought it.

National Grid NY Customer Credit:

In addition, in September 2014, the Commission approved terms of a joint proposal that made $24.75 million in credits available to customers of National Grid's KeySpan Gas East Corporation and Brooklyn Union Gas Company subsidiaries. The adoption of the proposal ended the Commission's investigation into questions concerning affiliate cost allocations, policies and procedures of National Grid. The joint proposal provided $11.41 million to KeySpan's 558,000 customers and $13.36 million to Brooklyn Union's 1.21 million customers, and concluded the Commission's investigation into National Grid's past practices and procedures for the allocation of costs from its service companies to its regulated New York utility affiliates.

Energy Reliability and Repowering

Dunkirk Repowering:

To improve reliability of the electric system, in June 2014 the Commission approved the repowering of the Dunkirk power plant. Not only will this decision improve the reliability of the electric system, it will also provide economic benefits to Western New York. Based on the $140 million agreement between National Grid and NRG, the repowered facility is assured operation for 10 years with added capability to generate 435 megawatts (MW) using natural gas.

Further, under the terms of the agreement, National Grid and Dunkirk Power, LLC, power plant owner Dunkirk and its parent company NRG Energy, Inc. will refuel three coal units at the facility to add the capability to generate 435 MW using natural gas. Currently only one 75 MW unit is operating on coal. The refueling provides potentially significant environmental benefits by allowing NRG to switch to cleaner-burning natural gas and provides critical local system reliability benefits for National Grid customers.

The Commission's decision approved National Grid's allocation and recovery of costs associated with refueling the Dunkirk generating facility. National Grid's agreement with Dunkirk anticipates the refueled facility will begin operations in the fall of 2015. Having dual-fuel capability will provide a reliability benefit by allowing the use of coal as a back-up fuel-source in the rare instance when natural gas may be unavailable or in short supply.

Storm Hardening and Monitoring Performance

Consolidated Edison Plan:

In February 2015, the Commission approved a storm-hardening and resiliency plan for Con Edison for 2015. The plan, called for as part of the company's 2014 rate plan, will invest nearly $375 million to strengthen the company's electric, natural gas, and steam distribution system.

Flood damage following Superstorm Sandy

In its 2014 rate order, which kept flat the charges paid by customers for delivery service, the Commission found that Con Edison needed to develop new tools and flexibility to adapt to climate changes. As a result, the utility adopted a new design standard to protect its utility systems located in flood zones, and committed to revisit its design standards every five years.

The company is also working on a pilot program to reduce natural gas leaks and identify other alternative resiliency approaches.

Con Edison will invest $294.4 million in 2015 for electric system storm hardening and resiliency projects related to the company's coastal networks, overhead system, substations, transmission structures and electric generation. The company will also invest $51.5 million in 2015 for gas-related projects related to main replacements in flood zones, vent line protector installations, regulator stations, remote operated valves, liquefied natural gas plant hardening and tunnel hardening. For its steam business, Con Edison will invest $27.7 million in 2015 in storm hardening and resiliency projects for its steam generating stations.

Retail Markets and Low-Income Consumer Protections

ESCO Customer Protections:

In February 2015, the Commission directed that new consumer safeguards be developed to protect energy service company (ESCO) customers, particularly those who participate in utility low-income assistance programs. The added protection will ensure that low-income customers will pay no more for energy from an ESCO than they would from their local utility, and/or obtain a valuable energy service from their ESCO. The Commission also directed new protections for all ESCO sales resulting from door-to-door or telephonic marketing, to require independent verification of a customer's request to enroll with an ESCO. The Commission further reaffirmed that that sales resulting from door-to-door or telephonic marketing must be confirmed by independent third-party verification, and clarified these requirements.

Low Income Forum:

In May 2014, the Commission and the NYSERDA held a Low-Income Forum on Energy (LIFE), a two-day statewide conference in Albany to address issues confronting low-income consumers. The LIFE conference provided an opportunity for frontline workers, advocates, energy efficiency contractors, and policymakers to meet and network with those who share the same commitment in helping low-income energy customers.

Water Rates and Service

United Water New Rochelle and United Water Westchester:

In November of 2014, the Commission rejected a United Water New Rochelle Inc. (UWNR) and United Water Westchester Inc. (UWW) joint request to increase revenues by $14.4 million, or 23 percent, over a one-year period. The Commission limited the increase in revenues to cover increases in operational expenses, property taxes, and other expenses. Combined, the water companies will increase rates by only $10.2 million, or 16.3 percent, with the increase spread over three years to minimize customer impact.

The Commission's action resulted in the administrative merger of the UWNR and UWW which are owned by a common parent, United Waterworks Inc., which will retain separate rate districts for the two service territories. UWNR provides water service to approximately 31,000 customers in 12 municipalities in Westchester County. UWW supplies water service to about 12,500 customers in three municipalities in Westchester County, the Villages of Rye Brook and Port Chester and the City of Rye.

United Water New York:

In keeping with its requirement to ensure that safe and adequate water service is provided to the customers, in November 2014 the Commission determined that there was no longer an immediate need for a new water supply source in United Water New York's (UWNY) service territory due to changed circumstances. The Commission also found that because a new water source could be required at some future time, UWNY was to begin work immediately to identify and develop alternatives to meet the region's water supply needs, including greater conservation efforts or other supply alternatives.

The Commission recognized the interests of UWNY customers and communities most affected by the decision to pursue a long-term water supply source and required UWNY to further explore whether significant conservation measures can be identified and executed to produce reductions in water usage and whether smaller increments of supply can be identified to complement conservation measures to ensure adequate supply.

In a related action, the Commission denied UWNY's request to implement a surcharge to recover carrying charges on development costs related to the long-term water supply; and rejected party requests that it commence a prudence investigation into UWNY's pursuit of the desalination project.

In response to grave concerns over the trend of significant rate increases, last June the Commission rejected United Water New York Inc.'s request to increase revenues by $21.3 million, or 28.9 percent. The Commission found instead that the company was only entitled to increase revenues to cover increases in local property taxes and required investments in the water system plus small increases in labor and other operating expenses. As a result of the Commission's determination, the company will only be allowed to increase rates by $ 9.8 million or 13.3 percent, the minimal amount required by State law.

The Commission's decision allowed the company to recover $7.7 million to reflect increases in taxes and capital improvements; and reduced or rejected proposed increases in several operational areas including management charges from United Water's affiliate and management incentive payments. The order further reflected an allowance of 9.0 percent return on capital as compared to the company's proposed 10.58 percent return. Finally, the Commission directed United Water to engage in a number of efforts to improve its operations to avoid or reduce the level of future rate increases while improving relations with local communities; and proposed an alternative ratemaking agreement.

Telecommunication Issues

Telecommunications Study:

In early 2014, the Department of Public Service notified State legislative leaders that it had launched a comprehensive examination and study of the telecommunications industry in New York. The study, which will include opportunities for public input, will include an analysis of the varying telecommunications technologies used today, including fiber-to-the-premises, cable, wireless, and landline technologies. The study will explore emergency response systems, regulatory oversight, quality of service, consumer protections, and affordability. The framework that will guide the examination includes the following areas: status of competition for communications services and networks; current and future consumer expectations; core public interest principles to be maintained; reliability, resiliency and interoperability of networks; and assessment of national and international approaches to ensuring core public interest principles and robust communications capabilities are maintained.

Telecommunications Examination Framework

- Status of competition for communications services and networks
- Current and future consumer expectations
- Core public interest principles to be maintained
- Reliability, resiliency and interoperability of networks
- Assessment of national and international approaches to ensuring core public interest principles and robust communications capabilities are maintained

As noted in Chair Zibelman's May 13, 2014 letter to State legislative leaders, it is highly desirable for the industry, education, government, unions, consumer and other public interest groups to have a forum to publicly and affirmatively present views on the current status of telecommunications in the state. Through the examination of these questions in public settings, with all the relevant stakeholders, a fair picture of the status of telecommunications in New York can emerge. The study will include public technical conferences on various forward-looking topics and formal public input to the final report. The public input will form a basic set of facts and vision to inform the Commission, Legislature and the Governor in order to set a rational and balanced approach to oversight of the interconnected telecommunications network of the future.

New Area Code:

Meanwhile, in December 2014, the Commission announced that the North American Numbering Plan Administrator (NANPA) had assigned the new area code 934 for Suffolk County, to provide additional much-needed phone numbers for residents and businesses. Local telephone companies were directed to activate the new 934 area code before the end of the third quarter of 2016.

Earlier in the year, the NANPA informed the Commission that the remaining available central office codes in the 631 area code (Suffolk County) would all be assigned by the third quarter of 2016. When this occurs, the 631 area code will be exhausted and its ability to serve the needs for new numbering in Suffolk County is compromised. To provide area code relief as required by federal law, the Commission examined "overlay" and "geographic split" options, and determined that an overlay was the preferred option because it is easier to implement from a technical standpoint and less expensive from a customer standpoint.

To implement the overlay alternative, there will be a six-month period for network preparation, followed by a nine-month period for permissive dialing and a one month period of mandatory dialing. This schedule should be sufficient to permit the activation of central office or NXX codes in the new 934 area code in the first quarter of 2016.

The geographic area associated with the new 934 area code is Suffolk County, New York. Suffolk County is the easternmost portion of Long Island and is home to 1.5 million people living in almost 500,000 households.

Comcast Time Warner Merger Proposal:

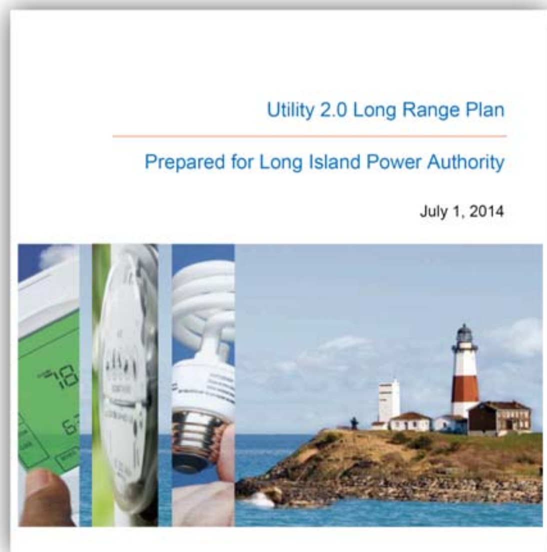
In May 2014, the Commission began its review of Comcast Corporation's proposed merger with Time Warner Cable, Inc. to determine whether the proposed transaction would be beneficial for Time Warner customers, as well as the State as a whole. Comcast and Time Warner Cable have an agreement in which Comcast would acquire 100 percent of Time Warner for $45.2 billion. In agreement also requires Federal regulatory approval.

The Commission used its new regulatory powers to conduct a thorough and detailed investigation into the proposed merger to determine whether the proposed transaction is in the best interest of Time Warner's New York customers and the State as a whole. Both companies provide digital cable television, broadband internet and VoIP telephone services in New York State. Time Warner serves approximately 2.6 million subscribers statewide while Comcast has 23,000 subscribers in Dutchess, Westchester and Putnam counties. Before the Commission could issue a decision, the companies decided to withdrew the petition.

DPS Long Island and LIPA

Utility 2.0 Long Range Plan:

On July 1, 2014, in accordance with the Long Island Power Authority (LIPA) Reform Act, PSEG Long Island submitted to the Department for review and recommendation, its proposed Utility 2.0 Long Range plan. Specifically, the Utility 2.0 Plan is intended to provide PSEG Long Island customers with tools to manage their energy usage and utility bills more efficiently and effectively, and improve system reliability and power quality. In its Utility 2.0 Plan, PSEG Long Island points to the specific goals of reducing peak demand and improving the efficiency and resiliency of the electric grid.



The Utility 2.0 Plan also identifies immediate reliability challenges on the Long Island electric grid that could be addressed through market animating programs and new technologies, rather than traditional infrastructure deployment. PSEG Long Island also offered a menu of program ideas including direct load control, energy efficiency, distributed generation and advanced metering infrastructure, which the company posits will enhance the customer experience, contribute to clean energy policy goals, and cost-effectively defer the need for more traditional utility infrastructure deployment.

As part of its review of the proposed PSEG Long Island Utility 2.0 Long Range plan, the Department held information sessions and public statement hearings in August 2014 in Smithtown, in Mineola, Rockaway Beach, Riverhead, and East Hampton. The Department was scheduled to make recommendations regarding the utility's long range plans early in FY 2015-2016.

PSEG Long Island Rate Plan:

In addition to reviewing the Utility 2.0 Plan, on January 30, 2015, PSEG Long Island submitted its three-year rate plan for 2016 thru 2018 for review by the DPS in accordance with Public Service Law § 3-b and Public Authorities Law § 1020-f. These statutes provide the framework for PSEG Long Island's rate-setting process and for oversight to be exercised by the Department.

In accordance with these statutes, the Department was required to review and make recommendations to the Long Island Power Authority's Board of Trustees with respect to rates and charges to become effective on or after January 1, 2016. The purpose of the review is to make recommendations designed to ensure the provision of safe and adequate electric service, with rates set at the lowest level consistent with sound fiscal operating practices.

The Department's review commenced immediately. The Department held procedural and technical conferences just a few weeks after the filing of the three-year rate plan. Additionally, the Department held information sessions and public statement hearings in Suffolk and Nassau counties in March of 2015 on the proposal. Under the LIPA Reform Act, the Department was required to complete its review and make its recommendation to the LIPA Board by September 28, 2015.

APPENDIX

Budget Highlights

The Executive Budget recommended $89.3 million for the Department, an increase of $3.7 million from the 2013-14 budget. This growth reflects an increase in funding to establish an office dedicated to the oversight of electric service on Long Island, partially offset by a decrease in local assistance funding and savings from operational and administrative efficiency initiatives. The Executive Budget also recommended a workforce of 527 employees for the Department, an increase of 4 employees from 2013-14 levels.

ALL FUNDS
APPROPRIATIONS
(dollars)

Category	Available 2013-14	Appropriations Recommended 2014-15	Change From 2013-14	Reappropriations Recommended 2014-15
State Operations	78,892,000	83,566,000	4,674,000	4,015,000
Aid To Localities	6,750,000	5,750,000	(1,000,000)	6,750,000
Total	85,642,000	89,316,000	3,674,000	10,765,000

ALL FUND TYPES
PROJECTED LEVELS OF EMPLOYMENT BY PROGRAM
FILLED ANNUAL SALARIED POSITIONS

Program	2013-14 Estimated FTEs 03/31/14	2014-15 Estimated FTEs 03/31/15	FTE Change
Administration			
Special Revenue Funds - Other	69	69	0
Regulation of Utilities			
Special Revenue Funds - Federal	15	15	0
Special Revenue Funds - Other	439	443	4
Total	**523**	**527**	**4**

Note: Most recent estimates as of 01/20/2014

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