STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 16-G-0058 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of KeySpan Gas East Corp. dba Brooklyn Union of L.I. for Gas Service.

CASE 16-G-0059 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company dba National Grid NY for Gas Service.

CASE 14-G-0091 - In the Matter of the Acts and Practices of The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid Regarding Billing of Each Company's SC No. 2 Customers from March 2008 to March 2014.

CASE 14-G-0503 – Petition for Approval, Pursuant to Public Service Law, Section 113(2), of a Proposed Allocation of Certain Tax Refunds between KeySpan Gas East Corp. d/b/a National Grid and Ratepayers.

CASE 13-G-0498 - Petition for Approval, Pursuant to Public Service Law, Section 113(2), of a Proposed Allocation of Certain Tax Refunds between KeySpan Gas East Corp. d/b/a National Grid and Ratepayers.

CASE 12-G-0544 - In the Matter of the Commission's Examination of The Brooklyn Union Gas Company d/b/a National Grid NY's Earnings Computation Provisions and Other Continuing Elements of the Applicable Rate Plan.

CASE 11-G-0601 – Petition for Approval, Pursuant to Public Service Law Section 113(2) of a Proposed Allocation of Certain Tax Refunds between KeySpan Gas East Corp. d/b/a National Grid and Ratepayers.

NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE STAFF STATEMENT IN SUPPORT OF THE JOINT PROPOSAL

BRANDON F. GOODRICH
STEVEN J. KRAMER
NICHOLAS FORST
Staff Counsels

State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

September 16, 2016

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

TABLE OF CONTENTS

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 16-G-0058 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of KeySpan Gas East Corp. dba Brooklyn Union of L.I. for Gas Service.

CASE 16-G-0059 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company dba National Grid NY for Gas Service.

CASE 14-G-0091 - In the Matter of the Acts and Practices of The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid Regarding Billing of Each Company's SC No. 2 Customers from March 2008 to March 2014.

CASE 14-G-0503 – Petition for Approval, Pursuant to Public Service Law, Section 113(2), of a Proposed Allocation of Certain Tax Refunds between KeySpan Gas East Corp. d/b/a National Grid and Ratepayers.

CASE 13-G-0498 - Petition for Approval, Pursuant to Public Service Law, Section 113(2), of a Proposed Allocation of Certain Tax Refunds between KeySpan Gas East Corp. d/b/a National Grid and Ratepayers.

CASE 12-G-0544 - In the Matter of the Commission's Examination of The Brooklyn Union Gas Company d/b/a National Grid NY's Earnings Computation Provisions and Other Continuing Elements of the Applicable Rate Plan.

CASE 11-G-0601 – Petition for Approval, Pursuant to Public Service Law Section 113(2) of a Proposed Allocation of Certain Tax Refunds between KeySpan Gas East Corp. d/b/a National Grid and Ratepayers.

NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE STAFF
STATEMENT IN SUPPORT OF THE JOINT PROPOSAL

INTRODUCTION

On September 7, 2016, The Brooklyn Union Gas Company d/b/a National Grid NY (KEDNY) and KeySpan Gas East Corporation d/b/a National Grid (KEDLI)(collectively, the Companies); Staff of the New York State Department of Public Service (Staff); the City of New York (CNY); Environmental Defense Fund (EDF); BBPC, LLC d/b/a Great Eastern Energy (GEE); Direct Energy Services, LLC (Direct); Consumer Power Associates (CPA); Estates NY Real Estate Services LLC (Estates); and Spring Creek Towers a/k/a Starrett City (Spring Creek Towers), collectively the "Signatory Parties," submitted a Joint Proposal recommending a comprehensive resolution of all issues raised in the above-captioned proceedings. By this Statement in Support of the Joint Proposal (Statement), Staff recommends that the Commission adopt the provisions of the Joint Proposal and establish three-year Gas Rate Plans for KEDNY and KEDLI to begin on January 1, 2017.

BACKGROUND

On January 29, 2016, KEDNY and KEDLI submitted tariff leaves, pre-filed testimony and exhibits in support of base rate increases, as adjusted in its corrections and updates file on April 4, 2016, of $289.99 million[1] and $174.742 million,[2] respectively, for the Rate Year January 1, 2017, through December 31, 2017 (RY1). If adopted as filed by the Companies, KEDNY's delivery rates would increase by approximately 34%, with a total customer bill increase of 19%; and KEDLI's delivery rates would increase by approximately 27%, with a total customer bill increase of 20% in RY1 alone. The primary rate drivers identified by KEDNY and KEDLI in support of their rate filings are the growth in rate base resulting largely from substantial increases in net plant, and operations and maintenance (O&M) expenses.[3]

A procedural conference was held on February 29, 2016, before Administrative Law Judge (ALJ) David R. Van Ort in Albany, New York. The Companies; Staff; the Utility Intervention Unit of the New York State Department of State's Division of Consumer Protection (UIU); CNY; the Long Island Power Authority (LIPA); CPA; the Association for Energy Affordability, Inc.; the Public Utility Law Project of new York, Inc. (PULP); Utility Rate Analysis Consultants Corp. (URAC); the New York Oil Heating Association, Inc. and Oil Heat Institute of Long Island, Inc.; the Village of Freeport; and Spring Creek Towers, each "Active

---

1 Ex. 233.

2 Ex. 243.

3 Ex.1, p. 21.

Parties" to these proceedings,[4] attended the procedural conference. The purpose of the procedural conference was to identify parties and major issues, establish a schedule for the proceedings and address issues related to service of documents, discovery and any other procedural matters identified by the parties at the conference. By ruling dated March 11, 2016, ALJ Van Ort adopted a case schedule as follows: KEDNY/KEDLI updates due April 4, 2016; Staff and Intervenor direct testimony due May 20, 2016, all Active Parties' rebuttal testimony due June 10, 2016, an evidentiary hearing to begin June 27, 2016, Active Parties' initial briefs due July 28, 2016, and reply briefs due August 17, 2016.

On May 19 and 20, 2016, Staff, UIU, CNY, GEE, URAC, CPA, Direct, EDF, LIPA, Spring Creek Towers, Estates, and PULP each filed direct testimony and exhibits in response to the Companies initial filings, as updated on April 4, 2016. Staff's testimony and exhibits recommended one-year revenue increases of $263.0 million[5] and $116.1 million[6] for KEDNY and KEDLI, respectively.

On May 31, 2016, the Companies filed a letter with the Secretary and served on all Active Parties to Cases 16-G-0058 and 16-G-0059, pursuant to 16 NYCRR §3.9, to provide notice of impending settlement negotiations in those proceedings. Specifically, the letter noted that the Company, Staff and other parties had agreed to enter into settlement negotiations beginning on June 14, 2016. Notices of impending settlement negotiations were also filed on June 28, 2016 in Cases 11-G-0601, 13-G-0498, and 14-G-0503. On July 15, 2016, KEDNY filed a petition in Case 12-G-0544 to modify its existing Gas Safety Violations Metric. KEDNY provided notice of this petition to the Active Parties, as well as the parties to Case 12-G-0544.

---

[4] In addition, by rulings dated April 1, 8 and 13 2016, and August 8, 2016, ALJ Van Ort granted party status to EDF, the Transport Workers Union, Local 101 (TWU), the Small Customer Marketer Coalition (SCMC), Estates, and the Town of Brookhaven.

[5] Ex. 300, p. 8.

[6] Id., p. 7.

On June 9 and 10, 2016, the Companies, GEE, CNY, UIU, and PULP all filed rebuttal and/or update testimony and supporting exhibits. At that time, the Companies revised their RY1 revenue requirements to $331.120 million[7] and $179.991 million[8] for KEDNY and KEDLI, respectively.

Settlement negotiations commenced on June 14, 2016, and continued on a number of occasions thereafter in Albany, New York City and via teleconference. Each Active Party was provided with notice of each meeting, copies of documents to be discussed, and had the opportunity to participate, even if that Party had notified the other Active Parties of its decision not to agree to any joint proposal.

In order to accommodate settlement negotiations, the parties requested modifications to the schedule adopted by ALJ Van Ort on March 11, 2016. Specifically, in order to facilitate slippage in the litigation schedule, the Companies provided their consent to extensions of the maximum suspension period in Cases 16-G-0058 and 16-G-0059 on June 17 and July 21, 2016, ultimately consenting to an extension of the maximum suspension period from January 1, 2017 until March 1, 2017, if necessary. On June 21 and July 25, 2016, ALJ Van Ort issued rulings postponing the beginning of the evidentiary hearings. Ultimately, the Signatory Parties filed the Joint Proposal on September 7, 2016. ALJ Van Ort presided over a procedural conference on September 8, 2016 to discuss the schedule for the remainder of these proceedings. On September 13, 2016, ALJ Van Ort issued a Ruling on Schedule for Consideration of Joint Proposal, which set forth the following dates: September 16, 2016 for filing Statements in Support or Opposition to the Joint Proposal;[9] September 23, 2016 for filing Reply Statements; and October 26, 2016 for convening the Evidentiary Hearing.

---

7 Ex. 284.

8 Id.

9 In this Statement, Staff will provide support for the Joint Proposal. Staff will respond to any Statements in Opposition filed by other parties in its Reply.

Notices of proposed rulemaking pursuant to State Administrative Procedure Act §202(1) was published in the State Register on April 27, 2016. Public Statement Hearings were held in KEDLI's service territory in Mineola and Riverhead on July 26 and 27, 2016; and in KEDNY's service territory in Brooklyn and Long Island City on August 10 and 11, 2016.

OVERVIEW OF THE JOINT PROPOSAL

As discussed in greater detail below, and in the various sections of this Statement, the Joint Proposal contains a number of provisions designed to protect and benefit ratepayers, maintain and improve KEDNY and KEDLI's ability to provide safe and adequate service, and to the extent feasible and appropriate, provide a resolution to other issues raised by intervenors. Section I of the Joint Proposal provides the procedural background for the proceedings addressed in the Joint Proposal. Section II provides the overall framework for the Joint Proposal. Section III provides definitions of the rate years, which are January 1, 2017 through December 31, 2017 (RY1); January 1, 2018 through December 31, 2018 (RY2); and January 1, 2019 through December 31, 2019 (RY3). Sections IV and V present the rate plans for KEDNY and KEDLI, respectively. Each section follows the same layout and will be addressed in this Statement together. Section VI includes a number of provisions common to both KEDNY and KEDLI. Section VII sets forth some additional provisions governing the relationship between the signatory parties.

Turning to the provisions of Sections IV and V, Section 1 proposes a three-year rate plan. Section 2 identifies the recommended annual revenue requirement increases, which for KEDNY are $272.090 million, $41.022 million and $48.915 million in RY1, RY2 and RY3, respectively. For KEDLI, the Joint Proposal recommends annual revenue increases of $112.002 million, $19.594 million, and $26.973 million in RY1, RY2 and RY3, respectively. The Signatory Parties recommend that the Commission levelize the increases to mitigate the impacts on ratepayers. The Joint Proposal recommends a return on equity (ROE) for both KEDNY and KEDLI of 9.0% and an equity ratio of 48.0% for each Company.

Section 3 sets forth recommendations on revenue allocation and rate design issues for firm and non-firm customers, as well as addressing the Companies' merchant function charges (MFC), lost and unaccounted for gas (LAUF) calculations, weather normalization and typical bill information as well as other related issues. Section 4 provides for the computation and disposition of excess earnings. Section 5 addresses the Companies' capital investment levels and O&M programs. Section 6 identifies the recommended reconciliations, deferrals and true-ups included in the Joint Proposal. Section 7 provides detailed recommendations for the metrics constituting the Customer Service Quality Program. Section 8 sets forth the provisions of the Gas Safety Performance Metrics, including the minimum number of miles of leak prone pipe (LPP) the Companies must remove during the term of the Rate Plans. Section 9 identifies a number of customer programs the Companies will implement, or continue to implement, including the Low Income Discount Program, and network enhancement programs.

Section VI, contains a number of miscellaneous provisions. Of note, Section 8 addresses retail access issues, Section 9 addresses power generation issues, and Section 10 addresses non-firm service issues. Section 13 identifies three Reforming the Energy Vision (REV) demonstration projects. Section 16 identifies new efforts the Companies will make to ensure inactive accounts are shut off in a timely fashion. Section 17 commits the Companies to not file for new rates to be effective during the term of the Rate Plan and addresses how the operation of certain provisions of the Joint Proposal would change if the Companies do not file for rates to be effective immediately following the end of RY3.

Section VII, as noted above, includes certain provisions regarding the relationship between the Signatory Parties. It also includes, in Section 5, a statement that, except where expressly provided for, the provisions of the Joint Proposal would continue after the end of RY3 until changed by the Commission.

STANDARD OF REVIEW

The Commission's Settlement Guidelines state that all decisions, including those to adopt the terms of settlement agreements (joint proposals) must be just and reasonable and in the public interest.[10] In addition to compliance with proper procedures, determining whether the terms of a joint proposal are in the public interest involves substantive consideration of the following:

1. consistency with the law and regulatory economic, social and environmental State and Commission policies;
2. whether the terms of the joint proposal compare favorably with the likely result of a fully litigated case and produce a result within the range of reasonable outcomes;
3. whether the joint proposal fairly balances the interests of ratepayers, investors and the long-term soundness of the utility; and
4. whether the joint proposal provides a rational basis for the Commission's decision.

Additional consideration is given to the completeness of the record and whether the joint proposal is contested. The Settlement Guidelines also explain that the Signatory Parties' burden to show the agreement compares favorably with a litigated result increases when the record is less developed.[11]

The Joint Proposal entered into in this case resolves all outstanding issues presented in testimony and settlement negotiations. In doing so, it fully comports with the Commission's Settlement Guidelines. The fact that KEDNY, KEDLI, Staff, CNY, EDF, GEE, Direct, CPA, Estates and Spring Creek Towers have executed the Joint Proposal is a testament to the extensive efforts employed by the Signatory Parties to address key issues and the equitable resolution, comprehensiveness and reasonableness of the Joint Proposal's provisions. Given the various interests of the specific parties involved in the negotiations, it is clear

---

[10] Cases 90-M-0225 and 92-M-0138, Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines (issued March 24, 1992) at 30.

[11] Id. at 31.

that the Joint Proposal is an agreement reached between normally adversarial parties.

Comparing the litigation positions[12] of the Active Parties to the terms of the Joint Proposal supports the conclusion that the Joint Proposal produces a result within the range that could be expected in litigation. The non-levelized rate increases under the agreement are significantly lower than what the Companies would otherwise have sought through litigation at the time the Joint Proposal was executed; at the same time, the proposal allows for rate certainty. Indeed, the non-levelized revenue requirements are much closer to those recommended by Staff in testimony. The Joint Proposal contains various provisions that place a strong emphasis on the Companies managing their costs, and provides enhanced incentives to that end (e.g., net-plant reconciliation, the gas safety performance metrics, LPP productivity incentive, and customer service performance mechanism). At the same time, KEDNY and KEDLI will receive sufficient additional revenues enabling it to implement new programs, and make repairs and substantial improvements to their gas systems to ensure the continued provision of safe and reliable service. Moreover, the Joint Proposal continues reconciliation mechanisms and reporting requirements characteristic of Commission-adopted rate plans.

The Joint Proposal's recommended allowed ROE of 9.0% is a fair compromise between the Companies' position in its original filing and Staff's position in its direct testimony. Moreover, the 9.0% ROE is comparable to the ROE allowed for other major utilities operating under a Commission-approved multi-year

---

[12] Parties' testimonies are referenced herein only examples of potential litigated outcomes.

rate plan.[13] Furthermore, the earnings sharing mechanism mandates ratepayer sharing if over-earning were to occur.

In sum, the Joint Proposal should be adopted because it satisfies the criteria the Commission has established, pursuant to the Public Service Law (PSL), for judging the reasonableness of settlements, namely that safe and adequate service be provided at just and reasonable rates. Furthermore, the Joint Proposal achieves a fair balance of interests among the Signatory Parties, and produces results that may not have been attainable except through a joint proposal.

Support Among the Parties

Signatories to the Joint Proposal represent varying interests, including ratepayer protection, climate change and environmental protection, competitive retail energy markets, the provision of safe and reliable service at just and reasonable rates, and rate certainty. The support for the Joint Proposal demonstrates that it addresses a number of important issues to the satisfaction of a diverse group of Signatory Parties. In addition to the Signatory Parties, UIU and LIPA are not opposing the Joint Proposal.

Additionally, as part of the Joint Proposal, the Companies agree to collaborative meetings with Staff and other interested parties on a variety of issues, including future rate design, storm hardening, power generation, services to non-firm customers and retail access. The Signatory Parties recognize the importance of an open exchange of ideas and information with respect to these topics. These collaborative processes ensure that the Companies, Staff and other interested

---

[13] Recently, the Commission adopted a 9.0% ROE, as recommended in the joint proposal, in the Central Hudson Gas & Electric Corporation (Central Hudson) rate proceeding. Cases 14-E-0318 and 14-G-0319, Order Approving Rate Plan (issued June 17, 2015) (2015 Central Hudson Rate Order). The Commission also approved a 9.0% ROE, as proposed by the joint proposal, in its recent rate order for Consolidated Edison Company of New York, Inc. (Con Edison), which extended its current rate plan by one year. Cases 15-E-0050 and 13-E-0030, Order Adopting Terms of Joint Proposal to Extend Electric Rate Plan (issued June 19, 2015) (2015 Con Edison Rate Order).

parties will have the opportunity to work together to develop mutually beneficial projects and ideas.

Adequacy of the Record

The record is adequate to justify adoption of all of the terms contained in the Joint Proposal. The terms included in the Joint Proposal are based on information and data supplied by KEDNY, KEDLI, Staff and other parties in their testimony, during the course of discovery, updates and/or during negotiations. The parties had ample opportunity to review the documentation provided by the Company and to conduct extensive discovery into the content and development of those documents. The Active Parties had the opportunity to review all initial and rebuttal testimony prior to the finalization of the Joint Proposal, ensuring that all parties' perspectives were given consideration during the course of settlement negotiations. Moreover, all Active Parties had the opportunity to participate in the settlement negotiations and many parties actively participated in the settlement negotiations process.[14]

The Joint Proposal is a detailed proposal to the Commission submitted by the Signatory Parties as to the costs and revenues underlying the proposed base rates and mechanisms provided for in the Joint Proposal. These costs and revenues, along with the other terms of the Joint Proposal, provide a sound, equitable and rational evidentiary basis on which to determine that the provisions of the Joint Proposal are reasonable, therefore, it should be adopted.

Public Interest

When considering whether the Joint Proposal is in the public interest, the document should be considered as a whole, with each individual provision providing support and balance to the others. Staff is aware that the Commission may accept, reject, or modify, in whole or in part, any recommendation or term of the Joint Proposal; however, it is Staff's belief that the Joint Proposal fairly resolves

---

[14] In addition, an evidentiary hearing will be held before ALJ Van Ort on October 26, 2016, at which the record may be further developed.

the ratemaking and policy initiatives of the Commission, thereby providing improved service at an equitable and well-reasoned cost. The Joint Proposal meets the public interest standard and, thus, should be approved.

The Joint Proposal should be adopted because it not only satisfies the criteria established by the Commission for judging the reasonableness of settlements, but it also provides for enhanced performance standards designed to improve the safety and reliability of the service provided by KEDNY and KEDLI while keeping rates just and reasonable. To mitigate the un-levelized increase in RY1 delivery rates, the Signatory Parties devised a rate design to moderate and levelize rates for customers over the term of the three-year rate plan, thereby minimizing the chance for rate shock.

The record is more than adequate to support the terms of the Joint Proposal, which are consistent with both law and policy, have a rational basis, balance the interests of ratepayers and the Companies, and compare favorably with the outcome of litigation. For these reasons, the Joint Proposal should be adopted.

ELEMENTS OF THE JOINT PROPOSAL[15]

A. Rate Plans

1. Effective Date and Term

As explained above, the Joint Proposal recommends three-year rate plans for KEDNY and KEDLI. The effective date, i.e., the beginning of RY1, is January 1, 2017.

2. Revenue Requirements

2.1. KEDNY/KEDLI Rate Plan Revenue Requirements

The fact of the matter is that these are large revenue requirement increases for both KEDNY and KEDLI. While Staff, in its review of the Companies'

[15] In order to facilitate the reader's comparison of the actual provisions of the Joint Proposal with the descriptions included in this Statement in Support, the headings in this section generally correspond to the headings in the Joint Proposal.

filings, made every effort to find adjustments to reduce the Companies' requested revenue requirement increases, Staff's review confirmed that revenue requirements of KEDNY and KEDLI's require substantial increases in incremental revenues. This, in part, results from the fact that KEDNY has not had a delivery rate increase in over a decade. KEDLI's last delivery rate increase occurred in 2008. Since 2008, inflation alone, based on the Blue Chip Economic Indicators, amounted to 14.6%. Furthermore, the Companies have implemented a number of programs to enhance the safety and reliability of their gas distribution systems, which the Commission has steadfastly supported, and which benefits their customers. These programs, such as the Companies' enhanced LPP removal program, have resulted in higher levels of net plant, placing upward pressure on rates. Thus, while the revenue requirement increases are substantial, they result in just and reasonable rates reflecting the Companies' costs to provide safe and adequate service to customers.

2.1.1. KEDNY Rate Plan Revenue Requirements

(a) Rate Year 1 Base Rate Increase (KEDNY)

As set forth in testimony and exhibits, Staff recommended for KEDNY a single year base revenue increase of $262.957 million.[16] Staff premised its recommendation on an 8.6% ROE and a 6.02% overall after-tax rate of return (ROR). On a pre-tax basis, Staff's recommendations equaled an 8.82% rate of return. In comparison, in its rebuttal filing it proposed a $331.120 million base rate increase, including an ROE of 10.04% and a 6.81% overall after-tax ROR.[17]

Comparing the Joint Proposal provision to Staff's recommendation, the difference between Staff's incremental revenue requirement litigation position of $262.957 million and the Joint Proposal's $272.090 million is approximately $9.133 million. This $9.133 million difference comprises adjustments to five main areas – Operating Revenues (a decrease of $9.3 million), O&M expenses (an increase of

---

[16] Ex. 302.

[17] Ex. 279, p. 4.

$18.7 million), depreciation expense (a decrease of $8.9 million), ROE increased from 8.6% to 9.0% (an increase of $8.0 million), and rate base (an increase of $0.6 million).

Again, the difference between Staff's litigation position and the Joint Proposal reflects both corrections reflecting the Company's rebuttal testimony, as well as the benefits encompassed in the proposed three year rate plan. Based on the Company's rebuttal filing, Staff accepted corrections and further adjustments to the O&M areas of: other expense; service company rents; total labor; energy efficiency program expense; transportation; regulatory assessment fees; and, uncollectible expense, thereby increasing the incremental revenue requirement by approximately $0.8 million.[18] Staff also accepted in the Joint Proposal further increases to two main areas of expense – other initiatives ($5.2 million), and the Low Income Discount Program, identified by the element of expense "residential reduced rate program expense" ($12.7 million). These adjustments, totaling approximately $18.7 million, are appropriate in light of the information developed in the course of these proceedings.

(b) Rate Years 2 and 3 Base Rate Increase

The Joint Proposal provides for agreed upon revenue requirements for incremental gas base rate increases of $41.022 million in RY2 and $48.915 million in RY3. As shown in Appendix 1, Schedule 1 of the Joint Proposal, the incremental revenue requirements for both RY2 and RY3 reflect changes in gross margin, various expenses associated with inflation, with specific forecasts applied to some expenses, depreciation, property taxes, and significant increases in net utility plant resulting from substantial forecasted capital spending.

---

[18] Id., p. 14.

2.1.2. KEDLI Rate Plan Revenue Requirements

(a) Rate Year 1 Base Rate Increase

As set forth in Staff's testimony and exhibits,[19] for KEDLI, Staff recommended a single year incremental base revenue increase of $115.778 million. Staff's recommendation was based on an 8.6% ROE and a 6.58% overall after-tax ROR. On a pre-tax basis, Staff's recommendations equaled a 9.38% rate of return. In comparison, in its rebuttal filing, the Company proposed a $179.991 million base revenue requirement increase, including an ROE of 9.94% and a 7.39% overall after-tax ROR.[20]

Comparing the Joint Proposal to Staff's litigation position, the difference in incremental revenue requirement between Staff's litigation position of $115.778 million and the Joint Proposal's $112.002 million is a reduction of approximately $3.776 million. This $3.776 million is comprised of adjustments to five main areas: –O&M expenses (an increase of $3.4 million); depreciation expense (a decrease of $12.0 million); property taxes (an increase of $4.5 million); the pre-tax ROR (a decrease of $0.7 million); and, rate base (an increase of $1.2 million).

Again, the difference between Staff's litigation position and the Joint Proposal includes corrections resulting from the Company's rebuttal testimony as well as the benefits that flow from the proposed three year rate plan. Based on the Company's rebuttal filing, Staff made corrections and further adjustments to the O&M expenses for service company rents, total labor, energy efficiency program, regulatory assessment fees, and uncollectible expense, thereby lowering the revenue requirement by approximately $0.3 million.[21] Staff accepted further adjustments to increase two main areas of expense – other initiatives ($2.9 million), and residential reduced rate program expense ($0.8 million). These adjustments, totaling approximately $3.4 million, are appropriate.

---

[19] Ex. 301.

[20] Ex. 289, p.5.

[21] Id., p. 15.

(b) Rate Years 2 and 3 Base Rate Increase

The Joint Proposal provides for increases in incremental base revenue requirements in RY2 of $19.594 million and $26.973 million in RY3. As shown in Appendix 2, Schedule 1 of the Joint Proposal, the revenue requirements for both RY2 and RY3 reflect changes in gross margin, various expenses associated with inflation, with specific forecasts applied to some expenses, depreciation, property taxes, and significant increases in net utility plant resulting from significant capital spending.

2.2. Levelization of Rate Increases

In order to mitigate the impact of the RY1 incremental revenue requirements on ratepayers, the Signatory Parties recommend levelizing the revenue increases in each of RY1, RY2 and RY3. Levelization results in aggregate revenue increases on a total bill basis of 10.8% in each rate year for KEDNY, as compared to an un-levelized aggregate revenue increase of 21.0% in RY1. For KEDLI, the levelized aggregate revenue increases are 7.0% in each rate year, as compared to an un-levelized aggregate revenue increase of 12.7% in RY1. Levelization does create a deferral of the revenues the Companies otherwise would have recovered in RY1, and collected during the remainder of their rate plans. This deferral will accrue interest at a rate equal to 50% of the National Grid USA money pool rate, and 50% the Companies' respective post-tax weighted average cost of capital (WACOC). For the purposes of setting rates at this time, the Signatory Parties used the current money pool rate of 1.16% and the RY1 post-tax WACOC's for each Company. This results in levelization rates of 5.12 for KEDNY and 5.26% for KEDLI, and aggregate carrying charges on the deferral resulting from levelization of $8.368 million for KEDNY and $3.165 million for KEDLI. The rate included in the Joint Proposal compares favorably to the rate allowed on similar levelization deferrals in other recent joint proposals, for example, the recent rate proceedings for the New York State Electric & Gas Corporation (NYSEG) and

Rochester Gas and Electric Corporation (RG&E).[22] As a result of levelization, the Companies' rates will be higher at the end of RY3 than they would otherwise be absent levelization. The Joint Proposal includes provisions to ensure that the Companies do not retain revenues in excess of the total allowed revenues for the rate years should they not file for new rates to be effective immediately at the conclusion of RY3. These provisions are discussed in Section B.17, below. Overall, levelization benefits ratepayers by moderating the bill impacts resulting from the rate increases over the term of the rate plan. Because of the low interest rate used to calculate the carrying charges on the levelization deferral, the costs of levelization are low.

2.3. Specific Elements of the Revenue Requirement

2.3.1. Other Initiatives

In their direct testimony, KEDNY and KEDLI requested for RY1 354 new employee positions for its gas operations.[23] Subsequently, in its April 2015 Corrections and Updates filing, the Companies requested an additional 25 full-time employees (FTEs) for its automatic meter reading program, an additional 15.1 positions for customer meter services, one position for energy procurement, and removed 2 customer function positions.[24] In our testimony, Staff accepted 376 out of the total of 393.4 positions and rejected the other proposed positions.[25] Staff viewed the amount of capital work the Companies will be undertaking, and recognized the need for many of the incremental FTEs requested. Additionally, Staff recommended that the incremental FTE salaries related to the engineering

---

[22] Cases 15-E-0283, et al., NYSEG and RG&E – Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (Issued June 15, 2016) (adopting a levelized rate plan utilizing those companies' pre-tax WACOC, an interest rate of 9.47%, 9.60%, and 9.60% for RY1, RY2, and RY3 respectively for NYSEG and 10.33%, 10.26%, and 10.27% for RY1, RY2, and RY3 respectively for RG&E for the levelization deferral).

[23] Ex. 91, p. 7.

[24] Ex. 252, p. 4.

[25] Ex. 300, p. 47.

positions be reduced to a lower level salary.[26] In rebuttal, the Companies argued against most of the disallowed FTEs recommended by Staff because it claimed that the FTEs were needed to assist in capital projects and programs. The Companies also rejected our recommended salary adjustment, stating that salaries at the low range will not attract candidates with sufficient talent to fill the positions. The Joint Proposal reflects an agreement on incremental FTE salaries to be a midpoint between the Companies' and Staff's positions. The Joint Proposal proposes the inclusion of 380 FTEs, which reflects an additional two compliance analysts per Company compared to Staff's litigation position. Appendices 1 and 2 of the Joint Proposal identify the other initiatives expenses reflecting additional employee positions agreed to by the Signatory Parties.

2.3.2. Productivity

In our testimony, we recommended a 2% productivity imputation,[27] while the Company testified to 1.0%, and held to 1.0% in its rebuttal testimony.[28] The Joint Proposal also reflects a 2% productivity imputation to direct labor costs for RY1. In RY2 and RY3, a 1.5% productivity imputation is reflected. A major driver of Staff's 2% productivity imputation in RY1 is the amount of new employees the Companies plan to hire, in addition to other programs the Company is implementing. This productivity imputation is intended to capture unspecified gains in productivity and decrease in O&M expense expected from increased capital expenditures, and other improvements to the Company's gas systems provided for in the Joint Proposal. While the Commission typically imposes a productivity imputation of 1%, it has imposed greater productivity imputations, so it is not

---

[26] Ex. 308, p. 75.

[27] Ex. 300 ,p. 44.

[28] Ex. 289, p. 23; Ex. 279, p. 25.

without precedent for the Commission to impute more than 1%.[29] Thus, the calculation of 2% of for RY1, and 1.5% for RY2 and RY3, is a proxy for expected productivity gains and supported by the Signatory Parties.

2.3.3. Depreciation

Management Applications Consulting, Inc. conducted depreciation studies for both KEDNY and KEDLI, and reviewed the average service lives (ASLs) for most of the Companies' plant accounts.[30] Based on this review and plant balances at the study date of December 21, 2014, the Companies proposed increases to depreciation expenses of $11.476 million for KEDNY,[31] and $15.354 million for KEDLI.[32]

For certain specific accounts that include an inventory of leak prone plant, the Companies proposed to depreciate the remaining balances over a 20 year period.[33] For KEDNY, the depreciation rate changes proposed would have resulted in a reduction of depreciation expense by $15.076 million for Other Storage-LNG, Transmission and Distribution Plant, an increase in depreciation and amortization expense of $0.429 million for General and Amortized Plant, and an increase in amortization expense for leak prone plant of $26.123 million. For KEDLI, the depreciation rate changes proposed by the witness would result in a reduction of $11.552 million in depreciation expense for Other Storage-LNG, Transmission and Distribution Plant, an increase in depreciation and amortization expense of $0.462 million for General and Amortized Plant, and an increase in amortization expense for leak prone plant of $26.444 million.

---

29 Case 93-E-1123, Long Island Lighting Company – Rates, Order Adopting Rec. Dec. with Modification (issued July 6, 1995); Case 95-G-1034, Central Hudson – Rates, Order Concerning Revenue Requirement and Rate Design (issued October 3, 1996); and Case 08-E-0539, Consolidated Edison Company of New York – Rates, Order Setting Electric Rates (issued April 24, 2009).

30 Ex. 88, pp. 3-5.

31 Id., p. 15.

32 Id., p. 17.

33 Id., p. 10.

In our testimony, we recommended adjustments to reduce KEDNY's and KEDLI's depreciation expense by $18.7M and $15.1M, respectively.[34] Specific adjustments were made to plant accounts and we recommended that the Commission extend the LPP amortization to 38 years (the current replacement timeline).[35] The only other party that filed testimony regarding depreciation expense was CNY, who proposed depreciation adjustments that went beyond well Staff's recommendations.[36] The Joint Proposal recommends that the Commission adopt adjustments to the Companies' requested depreciation expense levels of $27.2M for KEDNY and $26.9M for KEDLI.[37] Compared to Staff's litigated position, the Joint Proposal reflects downward adjustments that are greater than in our direct case, through the inclusion of some of the more aggressive adjustments of CNY. It reflects an appropriate and reasonable level of depreciation expenses for the Companies and, therefore, should be adopted by the Commission.

3. Revenue Allocation and Rate Design

3.1. Revenue Forecast

In their rate filings, the Companies forecasted approximately $741.7 million of base delivery revenue for KEDNY and approximately $524.4 million of base delivery revenue for KEDLI.[38] In developing their proposed revenue requirements, the Companies assumed that temperature controlled (TC) and interruptible customers' (IT) revenue were at the historic level. The Companies' forecasts reviewed five models (econometric, linear, logarithmic, logistic, and paralogistic functions of time) using 10 years of historic data.

In testimony, Staff forecasted approximately $736.4 million of base delivery revenue for KEDNY and $537.4 million of base delivery revenue for

[34] Ex. 308, p. 92.

[35] Id., p. 101.

[36] Ex. 415.

[37] Ex. 506, App. 1, Sch. 1, p. 7.

[38] Ex. 338; Ex. 342.

KEDLI.[39] Staff's KEDNY forecast did not include an adjustment to reflect the migration, effective January 2016, of a large-volume service class (SC) 18-5A customer moving to SC 17-2-1. Staff priced out TC and IT customers assuming an approximate 20% discount.[40] Our forecasts utilized a linear regression model that used three years of the most recent historical data. Had we used the same forecast method for TC/IT customers as the Companies, we would have forecasted approximately $749.6 million of base delivery revenue for KEDNY and approximately $539.2 million of base delivery revenue for KEDLI.

In rebuttal, the Companies expressed concerned about the impact of declining oil prices on the forecasted oil to gas conversions, which led Staff to compromise from its initial positions. For KEDNY, the Joint Proposal recommends delivery revenues of $745.60 million in RY1, and $754.12 million in RY2, and $762.60 million in RY3. For KEDLI, the Joint Proposal recommends delivery revenues of $531.0 million in RY1, $537.86 million in RY2, and $544.57 million in RY3.[41] The revenue forecasts in the Joint Proposal assumes TC and IT customers at the Companies forecast to avoid confusion between Staff's and the Companies' forecasts. The customer and volumetric forecasts in Joint Proposal were determined based on taking the midpoint of the difference between Staff and Companies' forecasts, updated to reflect the latest actual sales data and customer counts. Therefore, the Joint Proposal provides reasonable forecasts and should be adopted.

3.2. Revenue Allocation

In their direct testimony, the Companies proposed to allocate the revenue requirement increases for both Companies to firm and non-firm classes.[42] SC 1, 2 and 3 customers would receive a uniform increase and the other rate classes

---

[39] Ex. 332, p. 25.

[40] Id., p. 30.

[41] Ex. 506, App. 3, Sch. 1.1.

[42] Ex. 184, p. 24.

that were producing above average returns at present rates were assigned a smaller increase.

Staff, CNY, and UIU each filed testimony with other allocations. Due to the magnitude of the rate increase, Staff recommended in our testimony that all firm classes receive the same percentage increase.[43] CY proposed no increase for TC customers based on the embedded cost of service (ECOS) study results.[44] UIU proposed changes to the ECOS study, which showed different unitized rates of return for each Service Class. UIU proposed to allocate the revenue increase based on the results of its studies.

The Joint Proposal proposes that the Commission determine that all firm classes receive the same percentage increase, except for the firm distributed generation service classes, which currently have no customers taking service under them. The Joint Proposal is reasonable and should be adopted by the Commission because it reflects Staff's position, which will minimize the impacts to all customers. In light of the magnitude of the revenue requirement increases for the Companies, Staff does not believe that now is the time to correct for imbalances and recommends that the Commission adopt the proposed revenue allocations.

3.3. Rate Design – Firm Service Classifications

In their testimony, the Companies proposed that the minimum charges for all classes be frozen except for SC 1A and the tail block rate should be set closer to the demand rate, based on the results of the ECOS studies.[45] We recommended that the Commission freeze the minimum charges for each firm service class, except for SC 1A and recommended allocating an equal percentage increase to each of the rate blocks.[46] In its testimony, UIU proposed freezing the minimum charges and increasing the tailblock rates. The Joint Proposal would freeze minimum charges

---

[43] Ex. 332, p. 45.

[44] Ex. 393, p. 3.

[45] Ex. 169, p. 27.

[46] Ex. 332, p. 46.

for each firm service class, except SC 1A and would also allocate an equal percentage increase to each of the rate blocks, thus producing more even bill impacts within each service class. As this is a reasonable result and represents an accommodation among the parties, it should be adopted.

3.4. Rate Design –TC and IT Services

The Companies have traditionally set value of service rates (market based) for TC and IT customers, imputed a level into revenue requirement and then reconciled to the imputation.[47] In their testimony, the Companies proposed to set cost based rates and eliminate the revenue imputation/sharing mechanism.[48]

We recommended that the Commission set market based rates tied to the TC and IT service classes' otherwise applicable firm rate that results in a 20% discount for TC customers and a 30% discount for IT customers. In addition, we recommended that TC/IT revenue continue to be imputed and that the sharing mechanism also be continued.[49]

Under the Joint Proposal, cost based rates would be set for TC and IT customers. The rates proposed under the Joint Proposal equate to approximately a 20% discount for TC customers and a 30% discount for IT customers off of the otherwise applicable firm rates measured on a total bill basis. The revenue requirements for the Companies have been reduced to reflect the increased revenue from TC and IT customers (akin to the traditional imputation) and will be subject to a 100% true-up. The reason for this proposal is that, historically, there have been many complaints from TC customers (regarding taking firm service, charging equal to firm service, etc.) and this should address those concerns. The true-up provided for under the Joint Proposal is reasonable because it will protect customers from the uncertainty related to the actual revenues during the rate years. In addition, the

---

[47] Cases 06-G-1185 and 06-G-1186, KEDNY and KEDLI – Gas Rates, Order Adopting Gas Rate Plans (issued December 21, 2007), p. 38.

[48] Ex. 169, p. 66.

[49] Ex. 332, p. 30.

Companies will no longer have an incentive to keep customers from taking TC service and they will also not be able to charge TC customers for such level of service at approximately firm rates, which is a higher level of service.

3.5. MFC

The Rate Design Panel proposed to modify the Companies' MFCs to: (i) change the methodology for determining commodity-related uncollectible account expenses; (ii) modify the calculation of commodity-related working capital expenses; (iii) modify the return requirement on gas storage inventory to account for the change in treatment of storage under the Companies' retail access programs; and, (iv) add TC and IT sales and transportation customers and KEDLI's SC No. 9 Uncompressed Natural Gas Vehicle (NGV) Full Service into specific components of the calculation of the MFC. Additionally, the Companies proposed to apply to the MFC to TC and IT sales customers Gas Procurement and Commodity-Related Sales Promotion Expenses, Commodity-Related Credit and Collection Expenses, Uncollectible Expenses Associated with Gas Costs, and Return Requirement on Gas Purchase-Related Working Capital components.[50]

In our testimony, we agreed with all of the changes proposed by the Companies, except for charging the MFC to TC and IT customers because we believe the TC and IT rates should be market-based.[51] The Joint Proposal adopts the Companies' proposal and sets forth a fixed price for TC and IT customers and, therefore, it is reasonable to include the TC and IT sales customers' therms into the MFC calculation.

3.6. LAUF

The Companies proposed to update the LAUF factors following the Staff whitepaper.[52] In light of the specific circumstances for KEDNY and KEDLI,

---

[50] Ex. 169, p. 33.

[51] Ex.332, p. 46.

[52] Ex. 169, p 32.

Staff proposed targets to incent the Companies to control their losses.[53] The Joint Proposal splits the difference between the Companies and Staff positions, and phases in the LAUF factor to Staff's proposal by the end of the rate plan. The provision is reasonable and should be adopted by the Commission because it provides some flexibility for the Companies to achieve a lower loss level over the term of the rate plan.

3.6.2. New York Facilities System (NYFS) LAUF

In our testimony, Staff recommend that gas transported over the NYFS be assessed a positive LAUF factor.[54] The Joint Proposal acknowledges that the three utilities that operate the NYFS have to negotiate the terms of a new contract, and provides that a positive LAUF factor is appropriate to contribute to losses for gas transported over the system.

3.6.3. Inactive Accounts Adjustment

Staff expressed concern that the Companies may have recovered commodity costs from metered usage on inactive accounts through the annual reconciliation of gas costs. Because inactive accounts should be addressed as soon as possible, Staff recommended that the actual commodity costs be disallowed in the annual reconciliation of gas cost for inactive accounts that have metered usage that are older than sixty days.[55] Under the Joint Proposal, beginning in the next Gas Adjustment Clause (GAC) cycle, the LAUF calculation would be adjusted to reflect gas usage for customers that have been inactive for more than 90 days. The adjustment will be for metered usage and an estimated amount for accounts that have not been accessed. The 90 day compromise acknowledges that billing cycles impact an accounts usage quantification.

---

53 Ex. 332, p. 49.

54 Id., p. 56.

55 Id., p. 58.

3.7. Paperless Billing Credit

The Companies proposed a paperless billing credit at the difference between the costs to produce a paper bill versus producing an electronic bill.[56] The Companies also informed the parties that they were implementing further changes to make payments more convenient for customers, but would incur additional costs due to these changes. The Companies proposed to update the rate moving forward.

Staff expressed concern with the possibility of a rate change without the ability to review the costs and a change to the tariff without proper process.[57] Staff, therefore, recommended that the Commission require the Companies to file tariff revisions when the new systems are implemented. The Joint Proposal provides that the Companies must file tariff amendments to reflect changes in its electronic billing options and to propose to the Commission a methodology to address the change in costs when known.

3.8. Weather Normalization Adjustment

The Companies proposed to modify their current revenue decoupling mechanisms (RDM) for specific classes and Staff agreed with their proposal. With the modifications to the RDM, however, the WNA needs to be modified in order to eliminate weather related revenue differences in the RDM mechanism. The Joint Proposal reflects these changes. Additionally, in light of customer inquiries as to how to calculate the WNA adjustment, the Joint Proposal provides that the Companies will to post information on their websites to guide customers and avoid future WNA confusion.

3.9. SC 2 Refunds (KEDNY)

In our testimony, we recommended that Case 14-G-0091 be resolved by requiring KEDNY's shareholders to pay $9.3 million to SC 2 customers as a one-time credit, allocated based on each customer's historic usage.[58] The Companies did

---

[56] Ex. 169, p. 70; Ex. 185, p. 73.

[57] Ex. 332, p. 74.

[58] Id., p. 61.

not agree with our recommendation and proposed $2.7 million in their rebuttal testimony.[59] The Company estimated that the refunds were closer to $900,000 and, therefore, its number was more appropriate. The Joint Proposal reflects a refund of $6 million, which basically splits the difference between Staff and KEDNY. Thus, while it is true that a one-time credit as recommended is less accurate, it does provide a larger credit to customers sooner, at a time when there are large projected rate increases, because of the cost to determine exactly how much each customer would be due.

3.9. Brooklyn Navy Yard Cogeneration Partners Revenues (KEDLI)

KEDLI explained in its testimony that the Brooklyn Navy Yard contract was scheduled to expire on September 30, 2017. The current ratemaking treatment for the Brooklyn Navy Yard is to use the first $3 million to offset SIR costs, with the remainder was treated as other revenue (offsetting the revenue requirement). Due to the contract uncertainty, KEDLI proposed to flow 100% of the revenue through the off system sales and capacity release mechanism under the GAC and share the revenues with customers 85% (customers)/15% (KEDLI).[60] Under the Joint Proposal all of the revenue (excluding the proposed sharing) will flow to customers via the GAC and Transmission Adjustment Clause (TAC). Eliminating the sharing provides a greater benefit to customers. Sharing via the GAC and TAC ensures that all firm customers receive the benefits of any future contract with the Navy Yard.

3.10. RDM

The Companies proposed to continue the SC 1B Residential Heating RDM mechanism, updated for the customer and volume forecasts and also proposed to expand the RDM SC 2 Non-residential and SC 3 Multi-family.[61] The Companies conducted studies to try and determine appropriate breaks in the class, but were

---

[59] Ex. 277, p. 34.

[60] Ex. 2, p. 20.

[61] Ex. 169, p. 45.

unsuccessful, explaining that SC 2 and SC 3 are service classes that are comprised of diverse throughput and usage patterns and, therefore, a revenue per customers approach is difficult to determine and not appropriate. In light of this, the Companies proposed a revenue by class approach, with an adjustment to reflect an incentive to the Companies for new customers beyond the forecast. In our testimony, we agreed with their proposed modification, but recommended that TC and IT customers be adjusted out so that the Companies did not recover revenues twice.[62] The Joint Proposal reflects the Companies' proposal with Staff's modification, which will continue to allow the Companies to pursue energy efficiency measures without the impact of lower sales and protects customers from double recovery.

3.11. Tariff Modifications

3.11.1. GAC Reconciliation

The Companies proposed to combine the fixed gas costs in their GACs. The Companies already apply a common per therm commodity price, and proposed that the method be continued. The Companies propose to continue to file separate GAC statements, but would calculate a per therm common fixed cost and common fixed cost credit.[63] The Joint Proposal reflects the Companies' proposal because the impacts are small and it reflects how the Companies manage their gas portfolios and operate their systems.

3.11.2. Gas Tariff Provisions

According to their testimony, the Companies current tariff restricts the Companies' ability to minimize GAC imbalances-- the current limit is $0.05 per therm from November through July.[64] ESCOs have been concerned with large

---

62 Ex. 332, p. 60.

63 Ex. 169, p. 50; Ex. 2, p. 6.

64 Ex. 169, p. 57.

imbalances and their impact on competition.[65] In testimony, Staff agreed with the Companies' proposal[66] and the Joint Proposal recommends that the Commission adopt the Companies proposal, as it is important to minimize GAC imbalances.

3.11.3. TC/IT System Upgrade Charges

When TC and IT customers seek to become firm customers, they may be required to pay for system upgrades that are necessary to serve them. In its testimony, CNY proposed that the Companies provide an option to such customers to permit TC and IT customers pay such costs through a surcharge on their bills, rather than as an upfront charge.[67] The Joint Proposal recommends amending the Companies' tariffs to allow TC/IT customers converting to firm service to pay for necessary system upgrades through a surcharge calculated in a manner generally consistent with the Companies' surcharges for main extensions. This includes carrying charges, such that other ratepayers are not subsidizing the customer being surcharged. This provision gives an additional option for paying for system upgrades to TC and IT customers seeking to become firm customers, without harming existing ratepayers. It is thus reasonable and should be adopted.

3.11.4. Consolidated Billing Charge

Based on the results of the ECOS study, the Companies proposed to update the consolidated billing charge.[68] The Joint Proposal reflects the Companies' proposal, but the charge will be phased in over three years to mitigate customer bill impacts, and so it is reasonable.

3.11.5. Service Classification Changes

In their testimony, the Companies proposed to close SC 1BI and SC_17BI to new customers on January 1, 2017, because the programs are no longer

---

[65] Case 15-G-0101, Petition of the Small Customer Marketer Coalition to Examine and Revise the Mechanism for the Annual Reconciliation of Gas Expenses and gas Cost Recoveries (filed February 24, 2015).

[66] Ex. 332, p. 69.

[67] Ex. 392, p. 5.

[68] Ex. 169, p. 72.

being offered. SC 14 will be terminated because the Company has no customers taking that service.[69] Staff has reviewed the proposal and concurs with the Companies, since no customers will be harmed and the changes reflect the current operating environments at the Companies. The Joint Proposal recommends the changes be adopted.

3.11.6. Gas Tariff Fees and Charges

The Companies proposed to update its charges based on the cost of service. Staff has reviewed the Fees and Charges and they are reasonable as they reflect the current cost of doing business.

3.12. Typical Bill Information

The Joint Proposal recommends that the Companies be required to include additional information on their websites for customers. The requested info is similar to what electric utilizes post on their websites. The information will help customers who are looking for bill information. Therefore, this provision is reasonable and should be adopted.

4. Cost of Capital and Computation and Disposition of Excess Earnings

4.1. Cost of Capital

The Companies requested a cost of capital for KEDNY of 6.81%, 7.05%, and 7.13% for RY1, RY2 and RY3, respectively. The request was based upon a cost of debt of 3.96%, 4.11%, and 4.23% and a cost of equity 9.94% for the rate year and 10.44% for years two and three. KEDNY requested an equity ratio of 50.3% in years one and two and 50.5% in year three. Staff recommended a rate year cost of capital of 6.02%, which was predicated upon a cost of debt of 3.67% and a cost of equity of 8.6%. KEDLI's requested cost of capital was 7.39%, 7.63%, and 7.64% for RY1, RY2 and RY3, respectively. KEDLI's request was based upon a cost of debt of 5.09% years one, two, and three and a cost of equity of 9.94% for rate year one and 10.44% thereafter. The Company requested an equity ratio of 49.4% in RY1 and

---

[69] Id., p. 56.

RY2, and 51.5% in RY3. Staff recommended a KEDLI rate year cost of capital of 6.58%, which was predicated on a cost of debt of 4.81% and a cost of equity of 8.6%. Staff also recommended an equity ratio of 48% for both Companies.

KEDNY revenue requirements reflect a RY1, RY2, and RY3 cost of capital of 6.15%, consisting of a 48% equity ratio, a 9.0% cost of equity, and a cost of debt of 3.55%.[70] RY1 and RY2 for KEDLI reflect cost of capital of 6.42% and a RY3 cost of capital of 6.40%.[71] KEDLI's cost of debt is 4.06% for RY1 and RY2 and decreases to 4.02% in RY3. The equity ratio is 48% and the cost of equity is 9.0% for all three rate years.

The Joint Proposal is consistent with the Commission's preferred methodology regarding the cost of equity[72] and reflects the methodology proposed by Staff in testimony.[73] The ROE recommended in the Joint Proposal reflects allowances for the Companies' acceptance of some terms that tend to increase their potential risk exposure and recognizes the increased financial risk inherent in setting rates for more than one rate year.[74] The allocation of risk and return reflected in the Joint Proposal reasonable balance the return requirements of the Companies investors with customer expectations of safe and reliable service at just and reasonable rates.

4.3. Earnings Sharing Mechanism

The Joint Proposal proposes Earnings Sharing Mechanisms (ESM) with sharing thresholds for both Companies set at 50 basis points above the

---

70 Ex. 506, pp. 6-7.

71 Id., pp. 60-61.

72 Case 10-E-0362, Orange & Rockland Utilities, Inc. – Electric Rates, Order Establishing Rates for Electric Service (issued June 17, 2011); Cases 10-E-0050, NMPC – Electric Rates, Order Establishing Rates for Electric Service (issued January 24, 2011); 12-G-0202 and 12-E-0201, NMPC – Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013).

73 Ex. 357, pp. 18-49.

74 For example, the Joint Proposal contains an expanded Gas Safety Performance Mechanism, which increases the amount of negative revenue adjustments (NRA) to which the Companies are exposed.

recommended ROE of 9.0%, or 9.5%. Earnings above 9.5% but less than 10.0% would be shared equally (50%/50%) between customers and the Company. Earnings equal to or in excess of 10.0% but less than 10.5% would be shared 75%/25% between customers and the Company, respectively. Finally, earnings equal to or in excess of 10.5% would be shared 90%/10% between customers and the Company.

The use of ESMs is beneficial to customers because it provides the Companies with a financial incentive to control costs, while simultaneously ensuring that customers have an opportunity to share in those efficiency gains. Additionally, by providing that 90% of all earnings equal to or in excess of 10.5% are credited to customers, the ESM provides a significant safeguard against any potential for excess earning by the Companies. The use of ESMs is consistent with prior multi-year rate plans approved by the Commission. In addition, the actual threshold level and the widths of the various sharing bands are generally consistent with past practices. The ESM will be modified if the Companies do not file for new rates to be effective on or before July 1, 2020, as explained in Section B.17 below.

5. Capital Investment Levels and O&M Programs

5.1. Capital Investment Levels

In its corrected and updated testimony KEDNY asked for a total investment of $620,697,000 in its capital programs for RY1, $663,390,000 for RY2, and $612,943,000 for RY3.[75] In its corrected and updated testimony KEDLI asked for a total investment of $336,753,000 in its capital programs for RY1, $369,939,000 for RY2), and $365,507,000 in for RY3.[76] The Companies did not include incremental LPP investment in their capital budgets, rather they proposed to collect the costs via the safety and reliability surcharge. In testimony, Staff recommended a total investment of $580,629,000 for KEDNY's capital programs in RY1,[77] and

---

[75] Ex. 212.

[76] Id.

[77] Ex. 311, p. 2.

$274,702,000 for KEDLI's capital programs in RY1.[78] Other parties agreed with the need to invest in the Companies' capital programs for numerous reasons explained in each individual category and program.

The Joint Proposal recommends $602,891,790 for KEDNY's total investment in capital programs in RY1, $653,618,080 in RY2, and $649,659,531 in RY3. The Joint Proposal recommends $322,438,238 for KEDLI's total investment in capital programs in RY1, $377,446,239 in RY2, and $395,957,974 in RY3.

Staff made its initial recommendations after reviewing the Companies' filed testimonies and historical budgets, however, during these proceedings, Staff's understanding of the Companies' proposals and needs also evolved. For example, Staff discovered that the Companies incorrectly reported their Mains Replacement Program - Leak Prone Pipe unit costs for 2013 and, in addition, did not include the costs associated with Super Storm Sandy. As a result of updating these unit costs and increasing the LPP removal mileage target by five miles, the Joint Proposal's final Mandated category investment reflects a level above Staff's and the Companies' testimonial positions. The Joint Proposal's proposed capital expenditure levels are reasonable considering the large capital investments needed to update and modernize the downstate New York gas networks while maintaining a safe and adequate service to all customers. Accordingly, they should be adopted.

5.2. LPP Risk Ranking Algorithm

The Joint Proposal provides for the continued utilization of a risk based prioritization algorithm to identify and rank segments of LPP to be removed from service. This algorithm will take into consideration methane emission flow rate data and assigns a higher priority to LPP segments located in designated flood zones in instances where segments may otherwise have similar rankings.

The use of a risk prioritization algorithm is beneficial to ratepayers and the general public because the pipe which presents the greatest risk to the

---

[78] Id., p. 4.

public will be removed from service prior to that of lower risk pipe. Also, the additional factors being considered within the risk ranking algorithm will focus the Companies efforts and resources in their removal of LPP on segments that may have higher methane emissions or are located in flood zones.

5.3. CISBOT and Pipe Lining

The Joint Proposal recommends that KEDNY deploy a Cast Iron Joint Sealing Robot (CISBOT), to recondition two miles of LPP annually. Further, the Signatory Parties propose that KEDNY and KEDLI utilize Cured-In-Place (CIP) pipe lining to recondition 16-inch and larger diameter cast iron and steel mains. KEDNY will recondition 2.5 miles in 2017, four miles in 2018, and four miles in 2019. KEDLI will recondition one mile annually.

These innovative technologies will help the Companies' address a greater amount of LPP mileage each year, in addition to the mileage removed from service. Using CISBOT and CIP to address larger diameter mains, or riskier pipe, this will benefit customers and the general public by improving public safety. The segments which are reconditioned will remain in both Companies LPP replacement inventories for continued monitoring and future consideration.

5.4. LPP Productivity Incentive

In testimony, Staff explained that there are some unintended consequences to the net plant true up mechanism, notably that it does not recognize innovation or reward good cost controls.[79] In order to address this deficiency in an otherwise meritorious mechanism, Staff proposed an option to modify the net plant true up mechanism; specific unit cost trackers for budgets that have specific benchmark costs and deliverables such as mile of main can be developed. If the Companies are able to complete the work at a lower unit cost, the savings could be shared between customers and shareholders.

---

[79] Ex. 299, p. 26.

Copasetic with Staff's position, the Joint Proposal includes a provision to allow the Companies to earn a positive incentive if they are able to achieve unit cost savings for LPP. The Joint Proposal is reasonable because if the Companies achieve the goal and lower costs, customers will avoid paying a return on the savings for the life of the assets.

5.5. Gas Safety and Reliability Surcharge

In testimony, the Companies proposed a Gas Safety and Reliability Surcharge (GSRS).[80] The GSRS would allow the Companies to recover (1) a return on investment, depreciation expense and O&M expense (capped at the average replacement costs) associated with incremental LPP replacements above the levels funded in base rates and (2) the cost to repair system leaks (capped at the average repair costs) in excess of the Companies' leak backlog targets.

Staff, in testimony, proposed two modifications to the Companies proposed surcharge. First, O&M expense associated with the replacement of LPP would be limited to expense associated with disconnect and reconnects of service lines. Second, in developing the SGRS rates, the Companies would first allocate the revenue to be collected in the surcharge allocated to the SCs based on each SCs' delivery revenues, and then develop a specific rate for each SC.

The Joint Proposal recommends implementation of the GSRS in accord with Staff's modifications. It also allows for the recovery of positive incentives achieved through the LPP productivity, LPP removals and leak repair positive incentives. Finally, the Joint Proposal recommends allowing the Companies to recover costs that slightly exceed the Companies' historic average costs (by up to 2%), in order to allow flexibility as the Companies' perform more LPP and leak repair work.

The Commission has aggressive goals for removing LPP and reducing methane leaks to improve safety and develop environmental benefits. The Joint

[80] Ex. 169, pp.59-60; Ex. 185, pp. 62-63.

Proposal is reasonable because it allows the Companies to achieve the Commission's goals while fairly recovering reasonable costs within limits in each rate period.

5.6. Newtown Creek Project (KEDNY)

KEDNY has been pursuing for some time a project to capture and clean waste gas from a NYC wastewater treatment facility. In its testimony, KEDNY sought to include this program in its net plant with a forecasted in-service date during 2017.[81] KEDNY stated that the budget was $32.7 million. In testimony, Staff explained concerns about the timing and economics of the project. KEDNY also reported that the DEP usage has declined and that there were metering issues. KEDNY expects that due to the new developments that the originally expected start of construction of April 2016, will now be early Fall 2016. KEDNY's base case assumes an annual production of 277,500 dekatherm (dth), $33M capital costs and 5 years of property tax abatement for $14.4M. Under the base scenario the levelized revenue requirement is $5.7M per year, which equates to $20 per dth for the gas injected into the distribution system.[82] Accordingly, Staff did not include this project in net plant in testimony. However, in the context of multi-year rate plan, this project must be addressed. As the costs and in-service date for the project are uncertain at this time, the Signatory Parties did not include the project in net plant during the term of the Joint Proposal. The Joint Proposal does allow KEDNY to defer the carrying costs of the project once it goes into service, for review and potential recovery in its next base rate filing. However, given concerns about the costs of the project and whether the gas captured and cleaned by the project could be sold at a price that would recover the costs of the project, the Joint Proposal reflect a 40 year depreciable life and provides that the deferred carrying costs would be subject to a $1.6 million dollar annual exclusion for 20 years. It is expected that KEDNY and CNY will work to find cost savings, property

---

[81] Ex. 48, p. 114.

[82] Ex. 308, p. 54.

tax abatements or other avenues to minimize the cost impacts of the project on customers. This allows a project that can provide renewable natural gas to proceed, while limiting the risk of the project's costs for ratepayers. This provision of the Joint Proposal is reasonable and should be approved.

5.7. Capitalization Policies

The Companies proposed changes to the capitalization policies, so that Niagara Mohawk Power Corporation d/b/a National Grid (NMPC), KEDNY and KEDLI's policies were all aligned. The Joint Proposal adopts the Companies' proposals, which makes the capitalization policies consistent for the three National Grid operating companies.[83]

5.7.2. In-Line Inspections

In the extension order for NMPC,[84] the Commission required it to expense certain inspection activities. Like the capitalization policy section above, this section brings the standardization of accounting policies to KEDNY and KEDLI's operations.

5.8. EDF – Methane Leak Pilot Programs

The Joint Proposal proposes a collaboration among the Companies and EDF to gather and analyze methane emission data. This data will be utilized to prioritize system investments and leak repairs. The Companies will report on the results of the pilot program and any recommendations in their next rate filings.

5.9. Roadwork and Traffic Violations (KEDNY)

In the course of performing work in New York City, KEDNY receives notices of violations related to street opening and traffic violations. In testimony, Staff recommended that the fines incurred by KEDNY for such violations be removed from the revenue requirement. Staff viewed these charges are being

---

83 Ex. 48, p. 88.

84 Cases 15-M-0744 and 15-M-0509, NMPC – Incremental Capital Expenditure Petition, Order Granting Incremental Cost Relief, In Part, and Authorizing the Issuance of Securities (issued May 19, 2016), pp. 34-36.

controllable costs, and therefore should not be recovered from ratepayers.[85] In pre-field rebuttal testimony, KEDNY explained that these types of costs are incurred in the ordinary course of business as the Company must regularly excavate in streets and sidewalks in the city, and cannot always obtain the required permits in a timely fashion.[86]

The Joint Proposal requires KEDNY to submit to the Secretary, within 90 days after the close of each Rate Year, a report describing the efforts taken to reduce the notices of violation related to street openings and traffic violations. In addition, the Signatory Parties agreed that the revenue requirement should include 50% of the charges incurred by the Company. This recognizes KEDNY's argument that these notices of violation are not wholly under its control, and that KEDNY will continue to make efforts to improve on its performance and will make reports to the Commission on these efforts.

5.10. Inside Meter Relocations

As part of the LPP removal program, the Joint Proposal recommends an additional reporting requirement regarding the relocation of inside meter assemblies and equipment to outside the premises. Should an inside meter assembly not be relocated to the outside because the customer or building owner refuse permission, local building codes or similar regulations prohibit the relocation, or for other safety related reasons, the Companies would be allowed to leave the meter assembly or equipment inside the premises. In such instances, the Companies would have to include in their reports the reason(s) justifying leaving the meter assembly or equipment inside. This additional reporting requirement is reasonable, will provide the data in an auditable format for future review, and should be adopted.

---

85 Ex. 300, pp. 26-27.

86 Ex. 231, p. 15.

5.11. Gas Safety Items

The Joint Proposal includes provisions regarding additional first responder training, a pilot residential methane detection program for KEDNY, a pilot room set meter program for KEDNY, and the implementation of a damage prevention ticket management system for KEDNY.

The first responder trainings will include a combination of online and in-person training and education, integrated field response drills, and will promote communication between field personnel, fire departments, and other first responders. The residential methane detection program will deploy approximately 10,000 methane detectors in apartments with inside meters, or room sets. This program will be partially funded by the NRA incurred by KEDNY for its performance in the gas safety metrics for 2013 and 2014. The room set meter pilot program is discussed below. The damage prevention ticket management system will utilize an algorithm to evaluate and prioritize one call tickets based on the probability of damage. This program will also be partially funded by the NRA incurred by KEDNY for performance in 2013 and 2014. These new initiatives provide for a continued focus on gas safety and should be adopted.

5.11.3. Room Set Meter Pilot (KEDNY)

In testimony, Staff recommended that the Commission should adopt a positive incentive mechanism to convert customers that have a room set meters to a building meter.[87] Staff believes there will be future O&M savings, such as inactive account usage reductions, call center costs, metering costs and potentially leak testing. Serving customers with a building meter is also safer because it allows for quicker access to meters during an emergency event.

The Companies' rebuttal testimony stated that the removal and relocation of room sets requires careful and comprehensive study in collaboration with jurisdictional building authorities and building owners. The Gas Technology

---

[87] Ex. 332, p. 75.

Institute is currently performing a study (GTI Study) in connection with the Commission's Service Line Proceeding that is considering a risk analysis of inside piping. The Companies recommended that the scope of the GTI Study be expanded to examine relocating inside meters, including exploring alternative building designs and other options incorporating state-of-the-art construction concepts. The Companies stated that results of this study could be used to develop a strategy for relocating room sets and other inside meters.[88]

Due to the complexity of the potential program, the Signatory Parties agreed to develop a pilot for KEDNY that will test the feasibility of converting room set meters to a building meter. KEDNY will convert at least one building, but use its best efforts to convert up to five buildings and report on its findings. This provision is reasonable because KEDNY will have to work in collaboration with jurisdictional building authorities and building owners to complete the pilot, which will change the way customers are billed. The pilot will provide critical information on the communication and coordination necessary to produce a meaningful and successful program in the next rate case.

6. Reconciliations, Deferrals and True-Ups

Section 6 of the Joint Proposal contains the provisions on gas reconciliations, deferrals and true-ups. This section includes a summary section discussing briefly all deferrals, many of which should be clear on their face, and follows with more specific discussions of certain sections.

6.1. Existing Reconciliations, Deferrals, and True-Ups

Appendix 6, Schedule 1, of the Joint Proposal sets forth KEDNY's deferral accounts and other regulatory assets and liabilities forecast balances as of December 31, 2016, while Appendix 7, Schedule 1, sets forth KEDLI's. With the exception of the deferral accounts and other regulatory assets and liabilities identified as "Discontinued" on the Schedules, KEDNY and KEDLI are authorized

[88] Ex. 96, p. 25.

to continue use of reconciliation mechanisms and/or deferral accounting (with certain modifications) with respect to the expenses set forth in the Schedules.[89] The Joint Proposal contains the continuation of deferrals for: pension and OPEBs expense,[90] low income discount program,[91] economic development grant programs,[92] and the RDM.[93]

In addition, the Joint Proposal provides for the continuation of the following gas reconciliation mechanisms to continue outside of base rates: system benefits charge program costs, temporary state assessment PSL §18-a fees, LAUF gas, system performance adjustment, and gas cost incentive program.

6.1.3. Exogenous Costs

The Joint Proposal includes a provision allowing for 100% of all exogenous costs associated with, or cause by an individual instance to be deferred, once such costs exceed the threshold of exceeding 3% of pre-tax utility income for the year in which the change first occurs. Additionally, KEDNY and KEDLI will be permitted to a single exogenous cost arising from multiple municipalities' laws, regulations, or ordinances relating to the same subject matter. There was a concern that a pending Pipeline and Hazardous Materials Safety Administration (PHMSA) rulemaking that could impact multiple areas of operations during the rate plan, with respect to pipeline integrity management and verification requirements. Agreed upon by the Signatory Parties is that should PHMSA, or other pipeline safety regulator, adopt new rules, regulations, or requirements that raise

---

[89] The deferral accounts and other regulatory assets and liabilities identified as "Discontinued" on the Schedules will be discontinued as of January 1, 2017. These accounts contain forecast balances as of December 31, 2016, which are set forth in the Joint Proposal, Appendix 6, Schedule 1, and Appendix 7, Schedule 1. The discontinuance of these accounts is not intended to preclude KEDNY and KEDLI from returning to or recovering from customers the balances as of December 31, 2016, plus any applicable carrying charges.

[90] Ex. 506, p. 29; p. 79.

[91] Id., p. 29; p. 80.

[92] Id., p. 35; p. 85.

[93] Id., p. 35; p. 86.

compliance costs, the Companies may defer the costs, subject to a review by Staff and the Commission. This provision recognizes that prior to the beginning of the rate plans, it is impossible to know what circumstances may potentially change and impact the Companies, and providing some protection to the Companies against unknown, uncontrollable events is reasonable. Accordingly, this provision should be adopted.

6.1.4. Site Investigation and Remediation (SIR) Expense

In direct testimony, the Companies sought recovery of 100% of forecasted SIR expenses in base rates.[94] In addition, the Companies sought to continue their existing SIR surcharges through which they would collect 1/10 of their current deferred SIR balances in each rate year.[95] Staff, in testimony, reviewed the Companies SIR program, recommended including the amortization of the Companies' respective deferrals in base rates and recommended discontinuing the SIR surcharge.[96]

In its testimony, PULP argued that shareholders of the Companies should bear 20% of the future SIR costs.[97] The Commission, in Case 11-M-0034, evaluating the treatment of the State's regulated utilities' SIR costs, concluded that the risk of a negative market reaction to a generic requirement of shareholder responsibility for SIR costs could diminish any economic benefit to ratepayers.[98] However, the Commission recognized, as does Staff, that sharing may be appropriate in a specific rate case, where the Companies performance or other specific factors warrant different treatment.[99] Within these proceedings, PULP has not demonstrated any particular circumstances, such as a failure to follow best

---

94 Ex. 75, p.14; Ex. 62, pp. 23-24.

95 Ex. 75, pp. 14-15; Ex. 62, pp. 23-25.

96 Ex. 318, p. 12.

97 Ex. 441, p. 41.

98 Case 11-M-0034, Review of the Treatment of Utilities' SIR Costs, Order Concerning Costs for Site Investigation and Remediation (issued November 28, 2012) pp. 14 29.

99 Id. at 31.

practices or irregularities in the Companies' bidding processes, that warrant requiring KEDNY and KEDLI's shareholders to bear 20% of future SIR costs. Further, PULP has not considered the potential detrimental impacts of its proposal on the Companies' financial conditions, the raising of utility capital, and the potential impacts on their credit ratings. Such impacts could result in increased costs of capital, which would then lead to increased rates.

The Joint Proposal provides for the rate allowance for SIR to include one-tenth of the forecast deferral balance at December 31, 2016, and forecasted SIR costs. Not included are forecast costs associated with Gowanus Canal and Newtown Creek. The Signatory Parties agreed on the premise to include the forecast rate year costs in base rates. Ultimately, a compromise was reached to allow, beginning in RY2, a recovery surcharge for any forecast rate allowance exceeding $25 million on a cumulative basis, and be limited to an amount no greater than 2% of the Companies' prior year's aggregate revenues.

6.1.5. Property and Special Franchise Taxes

The Joint Proposal provides that differences between actual property and special franchise taxes expense to the rate allowance to be deferred for future refund to or recovery from customers. Differences will be shared 85%/15% between customers and the Companies, respectively.[100] The Companies, initially proposed a 90%/10% sharing mechanism for property and special franchise taxes. In its testimony, Staff proposed to eliminate the property tax reconciliation mechanism for a one-year rate term.[101] In the effort of recognizing the efforts for a multi-year rate plan, the Signatory Parties included the 85%/15% sharing mechanism for property and special franchise taxes.

[100] An example of this illustration is set forth in Ex. 506, App.6, Sch. 5 for KEDNY, and Ex. 506, App. 7, Sch. 5 for KEDLI.

[101] Ex. 305, p. 13.

6.1.6. Negative or Positive Revenue Adjustments

The Joint Proposal provides that KEDLI and KEDNY will defer certain negative or positive revenue adjustments they may incur or earn, associated with the programs discussed in the Joint Proposal, Sections IV.6.1.6 and V.6.1.6

6.1.7. TC and IT Services

See TC/IT rate design discussion in Section 3.4 for the rational, this section of the Joint Proposal merely identifies the dollar targets.

6.1.8. Electric Generator Revenues

Currently, KEDNY credits 100% of electric generator revenue through fixed gas costs to firm sales and transportation customers[102] and KEDLI credits 100% of electric generator revenue through fixed gas costs to firm sales and transportation customers, up to $25.8 million per year and any revenues above $25.8 million are deferred to offset growth related capital expenditures.[103] In their testimony, the Companies proposed to credit 100% of the revenues from electric generators to the Companies' revenue requirements to reduce delivery rates for firm sales and firm transportation customers. The Companies also proposed to reconcile the difference between the electric generator revenues included in the respective Companies' revenue requirements and the actual revenues recovered from the electric generators at the end of each rate year. In our testimony, we agreed with the Companies' proposals[104] and the Joint Proposal reflects these positions. The proposal on electric generator revenues is reasonable and should be adopted because it credits firm customers for the revenues the Companies receive from non-firm electric generators.

6.1.9. Economic Development Grant Programs

In testimony, Staff recommended that, due to the initial limited expectation of new program activity, there be a cap and a downward-only

---

[102] Ex. 169, p. 49.

[103] Ex. 185, p. 52.

[104] Ex. 332, p. 30.

reconciliation mechanism for the Companies' Economic Development Grant Programs.[105] The Joint Proposal provides that the Companies will continue their Economic Development Grant Programs as set forth in Section 9.2 at an annual funding level of $2.000 million for each Company, subject to a downward only reconciliation over the term of the Rate Plans. Any under expenditures in a given rate year will be carried forward and reconciled at the end of RY3. Spending in any single rate year may not exceed $3.000 million for each Company. This reconciliation mechanism is reasonable because the new program activities of the Economic Development Grant programs may take a certain amount time to be fully implemented.

6.2. New Reconciliations, Deferrals, and True-Ups

There are a number of new reconciliations, deferrals, and true-ups that are incorporated into the Joint Proposal. These deferrals include the net utility plant and depreciation mechanism, city/state construction, automatic uploads to EPA portfolio manager, room set meter pilot (KEDNY), variable pay, customer conversion rebate program, third party payment center processing fees, variable rate debt true-up, long term debt tenor true-up (KEDNY), and new hire true-up.

6.2.1. Net Utility Plant and Depreciation Expense Reconciliation Mechanism

We recommended in testimony a capital Investment Reconciliation Mechanism[106] to protect ratepayers from paying delivery rates that are too high in the event that the Companies were not able to implement their entire capital plans. The one-way downward only mechanism in the Joint Proposal protects customers if the Companies under-spend their capital budget or if there are significant slippage, or delays, in closing projects to plant in service. The Mechanism is reasonable because achieves the goal Staff set out to accomplish, to protect customers.

[105] Ex. 326, p. 65.

[106] Ex. 308, p. 105.

6.2.2. City/State Construction

The Companies must perform disconnect and reconnects, and support and protect operations during municipal construction activities. The Companies proposed to reconcile capital and O&M expenses related to City/State construction.[107] In our testimony, we opposed such a mechanism for a one-year rate plan and also claimed that the City/State deferral mechanism was unnecessary because the Companies have dedicated personnel to deal with City/State work and should be able to forecast and manage work planned in the rate year.[108]

The Joint Proposal provides for a 90% (customer)/10% (Companies) reconciliation on capital investments (excluding O&M expenses) from the forecast levels, net of reimbursements. The Joint Proposal also requires the Companies to submit a filing showing how the costs incurred in excess of the allowances were reasonable and outside of their control. In the context of a three year rate plan this provision is reasonable because City/State construction is more difficult to forecast than other expenses and is not in the Companies' direct control. The mechanism excludes O&M expenses, which are difficult to determine if they are incremental. The 90%/10% sharing provides an incentive for the Companies to manage to costs. The requirement of a filing provides a further incentive to demonstrate how the Companies are managing and coordinating the costs. Thus, the provisions regarding City/State Construction are reasonable.

6.2.3. Automatic Uploads to EPA Portfolio Manager

This provision allows for KEDNY and KEDLI to recover costs, through a deferral that is capped at an aggregate $0.750 million, to automate the process for energy consumption data to be uploaded to the EPA Portfolio Manager website over the term of the Rate Plans, as discussed in Section B.3, below.

---

[107] Ex. 48, p. 104.

[108] Ex. 308, p. 37.

6.2.4. Room Set Meter Pilot (KEDNY)

This provision allows for prudently incurred costs for the pilot program and is reasonable because the costs of this program are uncertain at this time.

6.2.5. Variable Pay

KEDNY and KEDLI requested that $7.7 million, and $4.5 million, related to incentive pay be included in its revenue requirement for RY1.[109] The Companies further revised these amounts to be $7.5 for KEDNY, and $4.3 for KEDLI in its Corrections and Updates.[110] The Companies variable pay "provides direct and specific incentives to employees to achieve or exceed certain operating performance goals" in their efforts of providing "customer service, safety, and reliability metrics the Commission has approved for KEDNY and KEDLI."[111] The Companies included a proposed deferral that "if the variable compensation amounts reflected in rates are not paid to employees for any reason, then the Companies will defer any such unpaid amounts, plus appropriate carrying costs, so that such unpaid amounts can be returned to customers."[112] Staff did not contest the variable pay deferral proposed by the Companies in its testimony due to the total compensation package evaluated to be within a reasonable range.[113] No other parties raised concerns on this issue.

6.2.6. Customer Conversion Rebate Program

This program, described in Section A.9.3 below, is subject to a downward only reconciliation over the term of the Rate Plans. The Joint Proposal designates that any under expenditures in a given Rate Year will be carried forward and reconciled at the end of RY3 for both KEDNY and KEDLI. The Joint Proposal

---

[109] Ex. 91, p. 29.

[110] Ex.201, p. 5.

[111] Ex. 92, p. 26.

[112] Id., p. 29.

[113] Ex. 322, p. 5.

allows the Companies to petition the Commission, to recover costs through a deferral mechanism, in the event of any anticipated over expenditures.

6.2.7. Third-Party Payment Center Processing Fees (KEDNY)

Since this is a new program, the costs are uncertain. KEDNY customers who utilize an authorized third-party payment center, such as Western Union, will not be assessed the transaction fee. Each Rate Year, KEDNY will fully reconcile the actual level of fees to the amount set in rates ($0.410 million). For KEDLI, the estimated costs are much lower and the true-up mechanism is not necessary.

6.2.8. Variable Rate Debt True-Up (KEDNY)

Among KEDNY's outstanding debt is $230 million of variable rate NYSERDA bonds. The interest rates on the variable rate bonds are based upon a Dutch auction process where auction bids are submitted and the rate is established that clears all the bonds being auctioned. Due to existing uncertainty investors have not offered to purchase the bonds and the auctions have been failing.[114] When an auction fails, the interest rate of the bonds are established based on a percentage of the then existing London Interbank Offer Rate (LIBOR). Given the uncertainty of future LIBOR rates and the prospect that the auctions will become successful during the term of the rate plan, a true-up mechanism for KEDNY was proposed by both KEDNY and Staff.[115] The Joint Proposal establishes a true-up mechanism to protect both KEDNY and customers from the uncertainty of the future NYSERDA bonds interest rates.

6.2.9. Long Term Debt Tenor True-Up (KEDNY)

The rate plan incorporates the planned issuances of $530 million of new debt for KEDNY in RY1. The Company's presentation assumed that the entire issue would be for a 30 year term.[116] Staff proposed splitting the issue equally

---

[114] Ex. 377, p. 9.

[115] Id., pp. 11-12.

[116] Ex. 210, Sch. 2, p. 1.

between 10 and 30 year bonds.[117] The Joint Proposal assumes that the forecast issuances of new long term debt issued are split equally between 10 and 30 year bonds. To the extent that the actual bonds issuances are split differently, the difference in interest expense resulting from the non-equal split will be deferred for refund to or recovery from customers. The forecasted interest rate is not trued-up to actual interest rates at issuance, and the Company assumes the risk that interest rates deviate from the forecast.

This true-up mechanism provides the company with incentives to issue the debt at the most advantageous term length based upon interest rates existing when the debt is issued. Since shorter term debt generally has a lower interest rate than debt with a longer maturity, the true-up will prevent the Company benefiting by issuing the debt with a shorter term than that assumed in the Joint Proposal. As a result, the incentive for KEDNY will be to issue the securities at the term providing the most benefit to customers.

6.2.10. New Hire True-Up

The Joint Proposal includes a provision which alleviates Staff's concern on the Companies hiring the incremental 380 FTEs. This new true-up introduced provides for the monthly reconciliation of actual employees hired, with KEDNY and KEDLI deferring the revenue requirement impact of the different for refund to customers.[118] This provision ensures that customers are protected should the Companies hirer less than the forecasted number of FTEs, or take longer to hire them.

7. Customer Service Quality Program

Customer Service Quality Programs are designed to help align shareholder and ratepayer interests by providing earnings consequences to shareholders for the quality of service provided by the utility to its customers. In

---

[117] Ex. 377, pp. 12-13.

[118] Illustrated in Ex. 506, App. 7, Sch. 14 for KEDLI and Ex. 506, App. 6, Sch. 15 for KEDNY.

their initial filing, the Companies proposed to make certain modifications to their service quality programs, as detailed below. Ultimately, the Companies proposed that the overall amount at risk for KEDNY and KEDLI should be continued at $11.7 million and $9.9 million, respectively.[119] Staff recommended that the current structure of the service quality program should remain in place, so that there are potential earnings consequences to shareholders that reflect the quality of service to utility customers.[120] The Joint Proposal continues the total amount at risk at $11.7 million for KEDNY and $9.9 million for KEDLI. This will help ensure that the Companies provide satisfactory customer service. Overall, this mechanism has been effective in encouraging the Companies to make customer service a corporate priority and providing criteria for ensuring that the quality of customer service remains at satisfactory levels.

7.1. PSC Complaint Rate

A PSC complaint is initiated with a dispute being filed by, or on behalf of a customer with the Commission. The annual PSC Complaint Rate metric is currently set at 1.1. The Companies proposed to reset the target to 1.05 for KEDNY, and to continue the current target of 1.1 for KEDLI.[121] The proposed targets assumed the addition of two employees to support the Complaint Process. Staff recommended continuing the annual PSC Complaint Rate at the current target of 1.1 for KEDLI and KEDNY,[122] and disallowing the extra call center escalation analyst for KEDNY.[123] CNY recommended that the PSC Complaint Rate be lowered to 0.9 for both Companies.[124] The Joint Proposal provides for a 1.1 PSC complaint rate for both Companies and is reasonable because it factors in the

---

[119] Ex. 127, p. 54.

[120] Ex. 326, p. 21.

[121] Ex. 127, pp. 48-49.

[122] Ex. 326, p. 22.

[123] Id., pp. 51-52.

[124] Ex. 392, p. 39.

disallowance of the additional call center analyst[125] and that the PSC Call Center tracks PSC Complaint rates by tenths and not hundredths.

7.2. Customer Satisfaction

Customer satisfaction is measured monthly based on the satisfaction ratings resulting from a random survey of residential customers who have contacted the Companies. The satisfaction level will be measured based on the number of customers rating the Companies between "6" and "10" on a 10-point satisfaction scale. The Companies proposed to continue the existing Customer Satisfaction metrics and targets, 84.8% for KEDNY and 83.4% for KEDLI.[126] In addition, the Companies proposed to prepare a report and recommendation to the Commission on whether to adopt new performance thresholds using a telephone survey methodology, instead of a mail-based survey.[127] Staff recommended that the existing Customer Satisfaction metrics and targets be continued without modifications.[128] The CNY proposed that the Commission raise the performance targets to 88% for KEDNY and 85% for KEDLI.[129] The Joint Proposal continues the metric of 84.8% for KEDNY and 83.4% for KEDLI. By April 1, 2017, the Companies will convene a meeting with Staff and interested parties for the purpose of aligning the survey methodology used to measure customer satisfaction with the telephone survey methodology used by NMPC. The Companies will file a report concerning the results of the meeting with the Commission no later than August 30, 2017, for further Commission action as may be necessary.

7.3. Telephone Answer Response within 30 Seconds

The Telephone Answer Response within 30 Seconds is a measure of the proportion of customer service calls answered by a Companies' representative

---

[125] Ex. 506, App. 1 and App. 2.

[126] Ex. 127, p. 47.

[127] Id., p. 48.

[128] Ex. 326, p. 22.

[129] Ex. 392, p. 40.

within 30 seconds, expressed as a percentage of the total calls answered. KEDNY proposed to increase the target from 59.0% to 62.2% on the condition that it is allowed to increase call center staffing and to load balance calls.[130] KEDLI proposed to add this as a new metric to its performance program at the same 62.2% target.[131] Staff recommended that the Percentage of Calls Answered within 30 Seconds should be increased from 59% to 60.6% instead of the 62.2% as proposed by KEDNY. The lower target corresponds to the Staff's recommended reduced staffing levels.[132] For KEDLI, Staff recommended that the Call Answer Rate metric be established at the rate of 62.2%, as proposed by KEDLI. UIU proposed that the more stringent targets of 62.2% be adopted for both Companies.[133] CNY proposed that the more stringent targets of 62.2% be adopted, but without any incremental call center staffing and to load balance calls.[134] The Joint Proposal establishes the 62.2% target for KEDLI and a 60.6% target for KEDNY, with a reduction of the Companies' proposed incremental call center staffing. The targets parallel with the reduction from the Companies' proposed seven to the agreed-upon three FTEs.[135] The Joint Proposal strikes a reasonable balance between increased staffing levels and the call answered rate.

7.4. Adjusted Customer Bills

The Adjusted Customer Bills metric is a measure of the proportion of customer bills that require later adjustment as a result of errors by KEDNY or KEDLI, expressed as a percentage of total customer bills. In their initial testimony, the Companies explained that an adjusted bills working group met for the data audit in Cases 13-M-0304 and 15-M-0566 and the Companies proposed that, in

---

[130] Ex. 127, p. 44.

[131] Id., p. 45.

[132] Id., p. 22.

[133] Ex. 431, pp. 11-12.

[134] Ex. 392, p. 35.

[135] Ex. 506, App. 1 and App. 2.

accordance with the data audit working group, certain situations would not constitute an adjusted bill and should be excluded. The Companies stated that this would result in a reduction of the targets from 1.69% to 0.58% for KEDLI and from 1.69% to 1.24% for KEDNY.[136] Staff recommended that the targets should be continued without modification because the results of the metrics audit have not yet been determined and any changes made in this case would be premature.[137] In its direct testimony, UIU recommended adoption of the more stringent targets for the Adjusted Bills measure.[138] CNY proposed that the adjusted bills measure should be reduced to the levels proposed by the Companies, but without any of the exclusions proposed by the Companies.[139] The Joint Proposal adopts Staff's recommendation, because it maintains the current performance targets pending the results of the data audit.

7.5. Reporting

The Joint Proposal provides that the Companies will submit an annual performance report to the Secretary to the Commission within three months after the conclusion of each full calendar year. The annual performance report will include a description of the service quality measures, the method for calculating performance, the results for the period, supporting calculations of annual results in spreadsheet format, and a narrative overall assessment of customer service performance during that calendar year. The Companies will also submit quarterly performance reports within thirty days of the conclusion of the first, second, and third quarter of each calendar year. While the parties did not submit testimony on these reporting requirements, this will help inform Staff and the parties regarding the Companies' performance.

---

[136] Ex. 127, pp. 45-46.

[137] Ex. 326, pp. 22; 33-34.

[138] Ex. 431, p. 10.

[139] Ex. 392, p. 38.

7.6. Tripling and Quadrupling Provisions

The Companies proposed that the merger-related tripling and quadrupling provisions be eliminated because they are no longer necessary or appropriate for the Companies' customer service quality programs. The Companies stated that they have demonstrated good performance, consistently, on service quality metrics. KEDNY has met all of its metrics since 2008 and although KEDLI has missed metrics in recent years, its performance has generally improved.[140] The Joint Proposal proposes to eliminate the tripling provisions for both KEDNY and KEDLI as well as the quadrupling provision for KEDNY. If KEDLI provides satisfactory service for the Customer Satisfaction survey for calendar year 2016, then the quadrupling provision would be eliminated beginning in RY1. If KEDLI performs satisfactorily in its customer satisfaction survey for 2016, then it will have performed at an acceptable level for the last two years and the quadrupling provisions are no longer necessary to ensure that the Companies can consistently deliver a satisfactory level of service quality. This is a reasonable resolution to this issue as customers remain protected by continuing the amounts at risk $11.7 million for KEDNY and $9.9 million for KEDLI.

7.7. Service Guarantee

The Companies will continue to provide a credit of $30 for residential customers and $60 for non-residential customers for appointments the Companies miss.[141] This service guarantee provides customers with compensation for the loss of their time.

7.8. Termination and Uncollectible Incentive

In their initial testimony, the Companies proposed a positive incentive for reducing service terminations by 7.5%.[142] The amount of the incentive equaled the Companies' estimated financial impact of not performing the terminations.

---

[140] Ex. 326, p. 32.

[141] Ex. 265, p. 8.

[142] Ex. 127, pp. 34-38.

Staff's testimony recommended a positive incentive for reducing terminations and uncollectibles, and an NRA if the level rose above the upper targets.[143] Staff's recommended targets were based on the Companies' normalized seven-year averages for terminations and uncollectibles. Staff's positive incentive and NRAs equal to seven basis points if both targets are met, or three basis points if one target is met. PULP recommended the establishment of an independent working group to audit the Companies' Home Energy Fair Practices Act (HEFPA) compliance and residential terminations to ensure the Companies are following HEFPA procedures before terminating a customer's service.[144] On rebuttal, PULP objected to Staff's recommended metric without an analysis of the Companies' deferred payment agreements and HEFPA compliance.[145] PULP did not adequately demonstrate the effectiveness of its proposal. The Joint Proposal establishes an annual positive incentive of seven basis points if residential service terminations are below 34,638 and uncollectibles are below $12,494,661 for KEDNY, and three basis points if one of the above levels are met and either terminations or uncollectibles stay below the normalized seven-year average. At this time, there are no targets for KEDLI in RY1 through RY3 because the transition at LIPA for its service provider from National Grid to PSEG means that historic termination levels are artificially low. Adequate data should be available in March 2017. By March 15, 2017, KEDLI will meet with Staff to determine the Company's target levels for RY1 through RY3 based on recent historic data, as the necessary data to formulate the targets will be available at that time. Excessive use of service terminations as a credit and collections tool may jeopardize the health, safety and welfare of New Yorkers and high uncollectibles contribute to higher ratepayer costs; this incentive will help to alleviate such risks and expense and should be adopted.

---

[143] Ex. 326, pp. 43-46.

[144] Ex. 457, pp. 33-34.

[145] Ex. 472, pp. 8-10.

8. Gas Safety Performance Metrics

The Joint Proposal recommends the continuation of the gas safety performance mechanisms in the areas of damage prevention, emergency response times to leak and odor calls, leak management, and the removal of LPP. In addition, the Joint Proposal encourages improvement in these areas by both tightening the targets and increasing the potential NRA levels to which the Companies are subject. Encouraging the Companies to improve their performance in the areas measured by these metrics benefits ratepayers and the general public by enhancing public safety. Accordingly, adoption of these provisions are reasonable and should be adopted.

Generally, these metrics are similar to those adopted in the most recent rate plan extension for KEDNY,[146] as well as the mechanisms adopted as part of rate plans for other gas utilities in New York State.[147] Specifically, the Joint Proposal recommends increasing the minimum performance levels applicable to the Companies for damage prevention in the areas of mismarks, Company and Company contractor damages, and in total. The Companies are required to maintain the statewide standards of responding to 75% of leak and odor calls within 30 minutes, 90% within 45 minutes, and 95% within 60 minutes. With regard to leak management, the Joint Proposal recommends both funding for and a new positive revenue adjustment incentive to the Company's for the further reduction of their total leak backlogs. The minimum total leak backlog targets ensure that performance in this area stays at an acceptable level. The new incentive to further reduce gas leaks can lead to the additional enhancement of public safety and the reduction in methane emissions.

---

[146] Case 12-G-0544, KEDNY – Rate Plan Extension, Order Adopting Terms of a Joint Proposal (issued June 13, 2013).

[147] Cases 14-E-0493 and 14-G-0494, Orange and Rockland Utilities, Inc. – Electric and Gas Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued October 16, 2015); Cases 15-E-0283, et al., NYSEG and RG&E – Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (Issued June 15, 2016).

In addition, multiple parties, including Staff, supported an acceleration in the Companies' LPP removal programs. The increased rate of removal per year would trend towards the complete replacement of LPP in approximately 20 years for both KEDNY and KEDLI. This substantial increase in LPP removal will benefit public safety on a commensurate level. Periodic updates for this program will be submitted which will compare the Company's risk prioritization models to what was actually replaced, as well as document areas of opportunity to replace more LPP in conjunction with other municipal and state projects.

Finally, the Joint Proposal also includes a critical gas safety performance measure for the Companies tied to instances of non-compliance (violations) with the Commission's gas safety regulations. Over the term of these rate plans, the Companies will be required to improve their performance under this metric and will have an associated total 100 basis point exposure per company. Compliance with the Commission's pipeline safety regulations benefits public safety by reducing the inherent risk associated with failing to adhere to the requirements for the safe transportation of natural gas. And, while this metric has evolved and now includes a provision that limits the exposure for multiple occurrences of a violation of a single code section, the rendition in the Joint Proposal is reasonable because any violation which is not captured under this metric is still subject to a potential penalty action under PSL §25-a in addition to PSL §25. Other rate plans containing a similar measure for combination electric and gas utilities were adopted prior to the development of PSL §25-a.

In summary, both KEDNY's and KEDLI's annual potential revenue adjustments for failing to meet the minimum levels of gas performance based on the measures are 150 basis points over the term of the agreements. This exposure brings KEDNY and KEDLI in line with other gas distribution companies operating within the state and provides for addition protections to the customers.

8.6. Calendar Years 2013 and 2014 Metric Results (KEDNY)

With regard to the audits of KEDNY's performance on the Gas Safety Regulation Performance Metric for 2013 and 2014, KEDNY is subject to a maximum NRA of $8.1 million. On July 15, 2016, KEDNY filed a petition in Case 12-G-0544 seeking an ability to reduce this NRA if it demonstrated improvement in its performance in this metric during 2016. The Joint Proposal provides for a mechanism which would allow the Company to reduce this adjustment by $1.2 million based on its performance during the 2016 calendar year. 2013 and 2014 were the first years in which KEDNY was subject to this metric. Further, Staff has continued to refine this metric in concert with various utilities through rate plans since that time. One of the goals of associating NRAs with the metric is to incent the gas utilities to improve their performance. If KEDNY's performance during 2016 meets the levels required to achieve the $1.2 million reduction, or a portion thereof, it will have demonstrated improvement in its performance from 2013 and 2014, which would be in line with this goal. As 2013 and 2014 were the first years in which KEDNY was subject to this metric, and it only allows mitigation of the NRA if KEDNY demonstrates improvement on this metric, this proposal is reasonable and should be adopted.

9. Customer Programs

9.1. Low Income Discount Program

The Company's current Low Income Assistance Program provides qualifying customers with a monthly bill discount. The existing bill discounts for KEDNY's program participants are monthly minimum charge discounts of 21.83% for non-heating customers and 56.52% for heating customers, and a discount of 49.61% on the second rate blocks during winter months. For KEDLI, the existing bill discounts for recipients are monthly minimum charge discounts of 49.94% for non-heating customers and 83.19% for heating customers, and a discount of 41.45 percent on the second rate blocks during winter months. KEDNY customers also receive a one-time $60 reconnection fee waiver; KEDLI low income customers are not charged reconnection fees.

In their direct testimony, the Companies proposed to increase the Residential Reduced Rate Program budgets from $9.847 million to $12.875 million for KEDNY and from $3.323 million to $4.661 million for KEDLI. Specifically, the Companies proposed a 5% increase to the discount levels for the monthly minimum charge and second rate blocks (winter months only) for heating and non-heating customers.[148] The Companies also proposed to discontinue the On Track arrears forgiveness program due to low enrollment and a low success rate (SSP Direct, at 65-66), and to set up an automatic enrollment process in collaboration with New York City's Human Resources Administration (HRA).

Staff agreed with these modifications to the Companies' low income discount programs, recognizing that the Commission may issue an order in Case 14-M-0565, the Proceeding to Examine Programs to Address Energy Affordability for Low Income Utility Customers.[149] In testimony, UIU agreed with the Companies that the low income program design should not change, pending the Low Income Proceeding. UIU supported the discontinuation of the On Track program.[150] UIU also proposed that KEDNY customers not be charged reconnection fees.[151] In its rebuttal testimony, UIU acknowledged that the Commission issued an Order in Case 14-M-0565 since Cases 16-G-0058 and 16-G-0059 began.

PULP's initial testimony discussed the burden low income customers face and that the Companies' Residential Reduced Rate program does not provide a large enough bill discount, and PULP said a 30% bill discount is adequate, as it argued in the Low Income Proceeding.[152] In testimony, CNY supported the

---

[148] Ex. 127, pp. 66-70.

[149] Ex. 326, pp. 39-40.

[150] Ex. 431, pp. 13-18.

[151] Id., p. 17.

[152] Ex. 41, pp. 28-30.

Companies' proposed bill discount increases and opposed the discontinuation of the On Track program. CNY also proposed the implementation of a file-sharing process to allow for automatic enrollment of eligible customers into the monthly bill discount as well as the recovery of HRA expenses to provide the file matching.[153]

On May 19, 2016, the Commission issued an order in Case 14-M-0565 (Low Income Order) that aligned the State's utility low income programs to provide tiered fixed discounts based on the amount of the customer's Home Energy Assistance Program (HEAP) grant. The Low Income Order also allowed KEDLI and KEDNY to continue enrolling low income customers who receive Medicaid, Supplemental Security Income, Supplemental Nutrition Assistance Program (SNAP or Food Stamps), Temporary Assistance for Needy Families, Safety Net Assistance, Veteran's Disability Pension, Veteran's Surviving Spouse Pension and Child Health Plus. The Companies were also directed to file an implementation plan in accordance with the Order, which the Companies outlined in their rebuttal testimony.[154]

The Joint Proposal would modify the current Low Income Programs for both KEDLI and KEDNY to adhere to the parameters set forth in the Commission's Low Income Order. KEDNY will undertake a file match process with HRA to identify and enroll additional low income customers. For KEDNY, the rate allowance is set at $25 million in RY1, $31.9 million in RY2 and $31.9 million in RY3. KEDLI's rate allowance is $5.4 million in RY1, $6.7 million in RY2 and $6.7 million in RY3. The Joint Proposal establishes that eligible customers will receive a tiered monthly bill discount based on the amount of their annual HEAP grant. All customers will receive the Tier 1. Beginning in RY2, the Companies will conform the benefits to the requirements of the Low Income Order. The Joint Proposal also requires that the Companies discontinue charging reconnection fees to Low Income

[153] Ex. 413, pp. 6, 11-12.

[154] Ex. 265, pp. 23-29.

Program participants, so as to prevent the use of disconnections as a collections tool. The Companies' On-Track arrears forgiveness programs will be discontinued, and current participants will be allowed to finish the program. The Companies will also continue to file quarterly and annual reports and evaluations of its low income programs with the Secretary.

Assistance to those who have difficulty in paying their utility is a matter of health, safety and welfare. The Joint Proposal provisions relating to the low income assistance programs are consistent with the provisions of the Low Income Order, provide assistance to low income customers, and should be adopted.

9.2. Economic Development Grant Programs

The Companies will administer its portfolio of Economic Development Grant Programs at an annual funding level of $2.0 million for each Company. Staff recommended that Grant programs be approved, but eligibility for multi-family buildings should be removed from the proposed Cinderella program.[155] The Joint Proposal adopts Staff's recommendation to exclude the grants for residential buildings, which is in public interest because grants for residential housing does not provide the ratepayer benefit level of business development that has regional impact, as opposed to housing development that primarily benefit the residents of the development.

9.3. Customer Conversion Rebate Program

The Companies' testimony proposed $0.200 million in additional rebates to support conversion to natural gas on existing KEDLI distribution mains is accepted. The Companies agreed to the Staff recommendation to extend an additional $0.200 million to the KEDNY territory for the same purpose, specifically targeting existing KEDNY non-firm customers' conversions to firm service if warranted.

---

[155] Ex. 326, p. 71.

The Joint Proposal recommends continuing the KEDLI Neighborhood Expansion Program, originally approved in Case 14-G-0214. The program threshold level for participation will be modified to neighborhoods with seven customers per 500 feet of main from the current 8 customers from 500 feet of main. This change recognizes the proven performance of the existing East Hills project.

9.4. Growth Incentive

The Joint Proposal goes beyond the Companies' proposed modifications, further enhancing the Company's ability to provide natural gas service in a more aggressive process as recommended by Staff in testimony. Specifically, the Joint Proposal provides for a natural gas network enhancement program that increases conversion rebates, modifies existing tariff processes, and creates a new program that further enables the Company to expand its gas service to customers within and beyond its existing franchise areas.

The plans include a Company Incentive Mechanism for each territory. As recommended by Staff, KEDLI can earn a basis point for every 550 customers added over an annual target of 5,500 new customers. Similarly, KEDNY can earn a basis point for each 700 customers over its annual growth target of 7,000 additional customers. In addition, KEDNY can also earn additional basis points for converting non-heat customers to firm heating. One basis point will be awarded for every 100 customers converted over an annual target of 1,000 conversions. All three incentives are capped at a maximum of five basis points each. This is reasonable as it incents the Companies to bring more customers onto their natural gas networks, which spreads the costs of operating the system over a larger base.

9.5. NGVs

This provision accepts the KEDNY proposal for a new rebate program that supports conversion of fleet vehicles to natural gas. It also accepts Staff's recommendation to extend the program to the KEDLI territory. This benefit of allocating $0.475 million for rebates in each territory is to improve the efficiency of the individual filling stations by increasing usage. In addition, within 90 days of the effective date, the Companies will file a report on the potential for conversions of diesel fueled vehicles to natural gas, a program to accomplish the conversions if warranted and a recommendation for an incentive to the Companies for this effort.

9.6. Third-Party Payment Center Processing Fees

Customers who utilize an authorized third-party payment center, such as Western Union, to pay their KEDNY or KEDLI bill will not be assessed the transaction fee of $1.25. The Companies' initial testimony proposed that the transaction costs for KEDLI customers charged by authorized third-party payment center, such as Western Union, be included in its annual revenue requirement.[156] Staff recommended consistency among both KEDLI and KEDNY, and that KEDNY's customers also should not have to pay for these transaction fees and that the annual costs for KEDNY should also be included in its revenue requirement.[157] The Joint Proposal adopts Staff's recommendations. These terms of the Joint Proposal are reasonable and should be adopted.

9.7. EmPower Replacement Program – Energy Efficiency (KEDLI)

Beginning in RY1, KEDLI will implement an energy efficiency program for low income customers, which will replace the EmPower New York program (EmPower Replacement Program). Staff recommended that KEDLI develop and submit a proposal to create a low income program to replace the EmPower New York program that will no longer be offered in KEDLI's service territory after December 2016.[158] In response, KEDLI proposed a low income energy efficiency program to replace and improve upon the EmPower program. For example, unlike the EmPower program, KEDLI's proposed program would seek to coordinate with PSEG Long Island to leverage existing infrastructure and layer incentives to achieve greater cost savings and deeper energy savings for

---

[156] Ex. 127, p.62

[157] Ex. 326, pp. 50-51.

[158] Ex. 350, p. 17.

customers.[159] KEDLI also proposed an Earnings Adjustment Mechanism (EAM) for this program to provide an incentive to achieve cost savings and promote participation. This program would assist low income customers lower their energy consumption and bills, while promoting energy efficiency, and, therefore, it should be adopted.

9.8. Geothermal Pilot (KEDLI)

In addition to the REV demonstration projects identified in the Companies' direct testimony, this provision provides for a pilot program in the KEDLI territory to demonstrate geothermal heating and cooling as an alternative to either new or existing firm or non-firm service. In developing the pilot, KEDLI will coordinate with both local water utilities and the Long Island Power Authority as appropriate.

B. Miscellaneous Provisions

1. Workforce Management Plans and Management Audit Implementation

In recognition of the internal staffing audit, Case 13-G-0449, and any potential interplay with incremental staffing requirements, this provision provides for the implementation of draft recommendations for the staffing audit and assures effective management and utilization of incremental staffing.

The most recent management audit applicable to the Companies' was completed in Case 13-G-0009,[160] a comprehensive management audit of National Grid USA's New York gas companies, which include KEDNY, KEDLI and NMPC.[161] Implementation of the audit recommendations in both cases are ongoing. Staff witness Routhier-James provided testimony regarding the status of the Companies' implementation in this audit. In sum, Mr. Routhier-James testified that the

---

[159] Ex. 265, p. 31.

[160] Case 13-G-0009, NMPC, KEDNY, KEDLI – Comprehensive Management Audit of National Grid USA's New York Gas Companies.

[161] Ex. 320, pp. 5-6.

Companies' implementation efforts have been satisfactory. As there was no dispute between the parties, the Joint Proposal does not specifically address this issue.

2. KEDNY and KEDLI Pension and OPEB Regulatory Asset

The Joint Proposal reflects on the proposals put forth by the Companies, which are described in the direct testimony of KEDNY and KEDLI's Revenue Requirements Panels.[162] Staff, per the Joint Proposal, will hold a meeting to discuss information needed to complete its review of the Companies' proposal to be held within three months of the Effective Date. Additionally, for the purposes of determining the Companies' internal reserve and the carrying costs that apply to that reserve, the Companies are authorized to combine the funding of its pensions and OPEBs, and to offset, for example, any deficiencies in funding.

3. Automatic Uploads to EPA Portfolio Manager

The Signatory Parties agreed that, beginning in RY2, KEDNY and KEDLI will implement an automated process whereby energy consumption data for buildings located in the CNY will be automatically uploaded to the EPA's Portfolio Manager website. This information will be provided on an aggregate basis and building owners can opt out of the automatic uploads. Because the costs to automate the process are not known with certainty at this time, KEDNY and KEDLI will be able to defer for future recovery the implementation costs, up to an aggregate cap of $0.750 million. This provision addresses a desire of the CNY, as set forth in its testimony.[163] It advances the State's and CNY's interests in promoting energy efficiency and has a limited cost. This provision is reasonable and should be adopted.

4. Installation of AMR Meters in the City of New York

In its pre-field testimony, CNY expressed a concern with the number of estimated bills it was receiving from the Companies.[164] The Signatory Parties

---

[162] Ex.156, p. 126; Ex. 143, p. 128.

[163] Ex. 411, pp.12-14.

[164] Ex. 392, pp. 5-6.

agreed that, in order to address this issue, the Companies would commit to converting the currently non-AMR meters for accounts administered by the Department of Citywide Administrative Services to AMI-adaptable meters by March 21, 2017. The Companies are already in the process of rolling out such meters and this addresses a concern of CNY. This is a reasonable resolution of the issue and should be adopted.

5. National Grid's New York State Call Centers

The Companies proposed to transfer calls among National Grid's New York State call centers (KEDNY, KEDLI, and NMPC) and in state third-party vendors. This will allow the Companies to improve customer service by transferring calls during peak periods among National Grid's New York call centers and third-party partners located in New York.[165] This would improve customer service and should be adopted as it does not eliminate any call centers, but does provide additional service to customers.

6. Service Applications

KEDNY and KEDLI will accept Individual Taxpayer Identification Numbers (ITIN) and, in New York City, IDNYCs, as acceptable forms of identification from an applicant for service. IDNYC is a personal identification card issued by the City of New York. In its initial testimony, UIU proposed that the Companies accept ITINs, as well as IDNYCs for prospective customers in the New York service area, as an acceptable form of identification from an applicant seeking gas service.[166] This will help ensure universal service and should be adopted.

7. Credit and Collections Outreach and Education Efforts

PULP proposed in its testimony the establishment of an independent working group to audit the Companies' HEFPA compliance and residential terminations.[167] While not agreeing with PULP that an audit was necessary, the

---

[165] Ex. 127, p. 57.

[166] Ex. 431, p. 23.

[167] Ex. 441, p. 33-34.

Signatory Parties agreed that more communication could be useful. The Joint Proposal provides that KEDNY and KEDLI will conduct bi-annual meetings (one before and one after the heating season) with Staff, PULP, UIU, and other interested parties to discuss credit and collections outreach and education efforts. These meetings are intended to inform Staff and the parties about the Companies' credit and collection practices and procedures, and therefore, should be adopted.

8. ESCO Issues

Improvements to the retail excess program for ESCOs have been in progress since the acquisition of these territories by National Grid in 2006. Initial changes were instituted as part of Cases 06-G-1185 and 06-G-1186. Additional modifications have subsequently been made, and any further improvements will be completed, in Cases 14-G-0330 and 14-G-0331. Together these changes have made these programs some of the most advanced in the state, and, in addition to helping level the playing field between the Companies and ESCOs, they have put more reliability assets in the control of gas marketers. The Joint Proposal continues the efforts to make these programs fair and reasonable for all customers.

8.1. Balancing Charges and Penalties

The Companies will modify tariff provisions to increase penalty charges associated with the under delivery of natural gas. Any under delivery in excess of 2% of the daily delivery quantity will be assessed an increased charge of $25 per dekatherm form $10 and during an Operational Flow Order situation the existing $25 charge per dekatherm is increased to $50. In addition, for daily balanced customers, any surcharge or discount to the daily index price are to also be considered penalties. These changes are needed to help ensure supply reliability due to the continued constrained capacity in the service territories.

8.2. Allocation of the Proceeds of Asset Management Agreements Related to Storage Service

The Companies are and will continue to provide a managed storage service to the ESCOs on behalf of transportation customers. If any asset management agreement impacts the costs related to this service, ESCOs will receive an allocation of these proceeds equivalent to the ESCO customers' proportionate responsibility for the storage charges. This will ensure that neither full requirement sales customers nor transportation customers possess an unfair gas cost advantage.

8.3. ESCO Collaborative

The Joint Proposal also provides for a collaborative among interested parties to commence prior to the effective date of this proposal. This collaborative will address issues related to "Equal Access to Assets" and a system to handle ESCO complaints. A written report is required by June 1, 2017 to provide time to implement any additional changes by the beginning of the 2017-18 winter season. If an agreement is not reached, this report will provide the positions of the parties as well as the areas of dispute, which will be the basis for a Commission order addressing these ESCO issues.

9. Power Generation Issues

Power generation customers have different economic and operating characteristics than other non-firm customers. They are much more subject to intraday and daily swings as dictated by the New York Independent System Operator (NYISO) dispatch needs. In accordance with Commission Orders in cases 13-G-0063, 14-G-0315, 14-G-0316 and 15-G-0246, the Companies already require generation customers to comply with strict balancing provisions that require a +/- 2% market based cash out imbalance tolerance, increased the associated balancing penalty tier structure, applied a $100 per dth penalty charge for unauthorized use during an interruption and/or an OFO. In addition, current tariffs also require that new generators, and existing ones that fail to comply with an interruption, should install and pay for remotely operated valves. Failure to comply with utility initiated interruptions can be just as serious as OFO non-compliance. These current requirements provide incentive to electric generators to better manage imbalances which helps preserve system reliability for firm customers. These provisions of the

Joint Proposal should be approved to assist in improving the needed services and to identify the proper charges for gas-fired power generation.

9.1. Designation of Certain Balancing Charges as Penalties

The Companies will modify tariff provisions to reflect that any surcharge or discount to the daily index price will be considered a penalty. These changes are needed to help ensure supply reliability due to the continued constrained capacity including balancing assets in the service territories.

9.2. Balancing Provision Modifications

As recommended in Staff's testimony, the Companies will modify the balancing provisions of its power generation tariffs to conform to the daily balancing provisions of other customers. The 2% basic balancing service will remain but daily imbalances of 2% or less will not be cashed out and imbalances greater than 2% will only be cashed out to the 2% level. The daily price index for the cash outs will also change to the simple average of the three existing price indices used for other daily balanced customers. These changes are fair and reasonable to allow the power generators the level of service for which they are charged. The need by power generators of additional balancing services will be addressed in a collaborative process.

9.3. Power Generation Collaborative

Phase One of this collaborative will begin in the fall of 2016 to address specific balancing service issues. A report will be filed by April 30, 2017 with either recommendations to the Commission or the positions of the parties for Commission action. The existing price structure for power generators also has to be addressed for the reasons discussed in Staff's testimony.[168] The Joint Proposal also proposes a comprehensive study of the services and charges to power generation customers. To facilitate this review, both value based and cost-based rate design for all power generation, IT and TC customers will be included. This study will be used in Phase

---

[168] Ex. 353, pp. 49-56.

Two of the power generation collaborative. Phase 2 will commence after the study is completed, no later than 150 days after the filing of the Joint Proposal.

10. Non-Firm Issues

Dual-fuel gas customers are those with energy alternatives. These customers include TC customers as well as IT and power generation customers. The load characteristics of TC and IT customers are virtually identical. They are large, dual-fuel customers that burn natural gas or oil based on price, and they serve the same demand response function on the system. Demand response is critical in these service territories due to an existing shortage of pipeline capacity, and the cost of and environmental opposition to new pipeline projects. Under the current parameters of these service classifications, however, TC customers pay more than interruptible customers for less service. This is because TC customers pay minimum charges and supply reservation charges, but receive an inferior service, compared to interruptible customers, in that the Companies interrupt TC customers at the temperature threshold regardless of system pressure conditions, whereas the Companies must continue serving interruptible customers unless there is a system reliability issue. Over time, these parameters have become discriminatory among similarly situated customers, particularly against TC sales customers who pay at least a modest contribution to supply reservation charges, but are interrupted before interruptible non-firm customers that pay no supply reservation charges. There are no cost-causative distinctions among customers in the existing TC and IT service classes that warrant this disparate treatment. Load factor and any other distinctions among the customers can and should be addressed by segmenting the interruptible class by customer type. These provisions of the Joint Proposal should be approved to provide the Companies, Staff and the interested parties a process to redesign demand response service in this capacity constrained area.

10.1. TC Moratorium

Under the Joint Proposal, no new TC Customers will be added during the term of these rate plans. Existing TC customers may remain in the service class but will be allowed to switch to other dual-fuel services or firm service where possible.

10.2. Alternate Fuel Affidavit for TC and IT Customers

The Joint Proposal provides that the Companies will amend their tariffs to require dual-fuel customers to provide affidavits showing that alternate fuel refill contracts are in-place. These contracts will be phased in over a three-year period. New affidavits will be required on a three year rolling basis to minimize the administrative burden involved with approximately 3,000 dual-fuel customers. Failure of customers to comply will result in a strike under the Companies two-strike rule.

10.3. Recognition of Case 15-G-0185

The Joint Proposal provides that nothing in it prevents the prospective implementation of any Commission orders that arise from this generic case on dual-fuel service operating parameters.

10.4. Peaking Costs in the TC Demand Rates

Peaking services and charges to TC customers would be modified to allow for a return to gas service when the threshold temperature parameters are satisfied even if peaking services must remain on by contract. This change is based on experience learned during the Polar Vortex winter of 2013-14 and the subsequent winter of 2014-15.

10.5. TC/IT Modifications

Instead of using Central Park, NY as the weather station for TC customer requirements, the Companies will add new weather stations in Queens and Long Island to better match the temperatures at the customers' locations. In addition, if there are two separate interruptions of service within any 48 hour period, only one strike under the two strike rule will be assessed by the Companies.

Both of these actions should minimize the impact on customers, their supporting alternate fuel systems and distribution system reliability. These changes are also based on experience learned during the Polar Vortex winter of 2013-14 and the subsequent winter of 2014-15. New communication and warning notices to customers are also to be developed and utilized.

10.6. Use of Firm Storage Released to ESCOs for Non-Firm Customers

ESCOs participating in the mandatory capacity release program for retail access will now be allowed to use these assets for IT and TC customers when not needed for firm customers. This will match the same capability now utilized by the Companies in similar situations and again help level the playing field between full requirements sales services and transportation services.

10.7. IT/TC Collaborative

A collaborative to address IT/TC issues will commence 60 days after the filing with the Secretary to the Commission of the Power Generation Collaborative 's Phase Two Report. A list of issues is included in Appendix 11. The parties will file a written report no later than six months after the collaborative commences. This report will include any agreed upon recommendations and/or positions of the parties for a Commission decision. This collaborative should be approved so that it can provide guidance for the future of demand response service in the downstate area.

11. Research and Development Reporting

The Companies are required to file a R&D plan every three years in Case 98-G-1304. Staff recommended in testimony, that the Companies' report be revised to better identify and separate the projects, as well as the associated budget requirements, among the three different New York service territories of the parent corporation. Within 30 days of the effective date in this proceeding, the Companies will file this revised report. Future reports filed in Case 98-G-1304 will follow the revised format.

The Joint Proposal provides for maintaining the current level of R&D collections and that the Company focus spending of any unspent funds towards additional gas safety-related R&D. The Company has recently reduced collections to balance them with project funding. The safety initiative, among other projects, should include continued methane detection capability in addition to the residential methane detector projects included in a separate provision.

12. Interconnection Agreements

In testimony, Staff recommended that the Companies develop an interconnection agreement to be used by any supplier of natural gas that desires to connect with the distribution system. The purpose of this agreement is to provide the consistency and transparency of interconnection requirements so that all possible suppliers are treated fairly and consistently. Suppliers currently identified are primarily renewable natural gas sources such as landfills and anaerobic digester systems. The Joint Proposal commits the Companies to file with the Secretary to the Commission, within 150 days of the effective date, a standard interconnection agreement as specified in this provision.

13. REV Demonstration Projects

The Companies testimony proposing three REV demonstration projects. Staff proposed that the combined heat and power project proposal needs to be assessed on the impact of the project on both electric and gas reliability, not electric alone. This provision establishes a dialogue between Staff and the Companies to assess the impact of these pilot projects on peak day gas demand requirements.

14. Outreach and Education Plan

Staff recommended that the Companies file an Outreach and Education Plan that includes a complete evaluation and a financial accounting of all funds used for outreach and education purposes. This evaluation and accounting would provide information regarding each program within each category referenced in the Outreach and Education Plan.[169] The Joint Proposal provides that the Companies will file with the Secretary an annual Outreach and Education plan. The plan will include detailed budgets and describe the specific outreach campaign messages to be disseminated, the communication vehicles to be used, the goals of the outreach program, and the criteria for measuring their achievement. This will help ensure that the Companies outreach efforts are effective and accountable.

15. Capital Reporting Requirements

This provision of the Joint Proposal includes certain reporting requirements with which the Companies must comply. These cover their LPP prioritization, Type 3 leak prioritization and capital plan reporting requirements. These requirements ensure a minimum level of communication that will allow Staff to adequately monitor the Companies' capital programs. As such, they are reasonable and should be adopted.

16. Inactive Accounts

The Joint Proposal recommends enhancements to the Companies' inactive accounts program. The Companies, in consultation with Staff, will modify call center procedures, monitor meter reading data for gas usage, develop a voluntary leave on for the landlord program, work with other local municipalities to develop a process for obtaining permits, and will pursue replevin for inactive accounts.

The possibility exists that there may be leakage on piping associated with inactive accounts. Any leakage into a building presents an immediate danger to life, property, and the environment. Therefore, these enhancements to the inactive account programs, which seek to mitigate the potential for leakage, are reasonable and should be adopted.

---

[169] Ex. 326, pp. 60-63.

17. Filing for New Rates

17.1. During the Term of the Rate Plans

The Companies commit to not file for new base delivery rates to be effective prior to December 31, 2019. This provision includes a number of standard exceptions, which allow for consideration of modifications that result in de minimis impact on rates, to address new services or, should the Commission determine that unforeseen circumstances have had a substantial impact on the Companies' rates of return so as to render the return unreasonable, unnecessary or inadequate for the provision of safe and adequate service. This provision is reasonable and should be adopted.

17.2. Following the Term of the Rate Plans

The Companies' most recent previous rate cases were conducted in 2007. This length of time between filings contributed to the large increases proposed in the instant proceedings. The Signatory Parties desire to avoid a repeat of this scenario. In addition, the Signatory Parties recognize that these proceedings will result in new rates going into effect in January 2017, at the peak of the winter heating season. Implementing gas rate increases during the heating season can exacerbate the impact on customers, and the Signatory Parties recommend that, when KEDNY and KEDLI next file for rates, they do so at a time that allows the new rates to go into effect during an off-peak season.

In order to address these desires, the Joint Proposal has provisions that will encourage he Companies to file for new rates to become effective no later than July 1, 2020. This will provide an opportunity to review the Companies' rates, practices and regulations within three years. It also provides the Companies with flexibility to delay their rate filing by up to six months from the end of RY3 in order to have new rates go into effect outside of the winter heating season.

While these objectives seem simple, levelization complicates this issue. As discussed above in Section A.2.2, one consequence of levelization is that, at the end of RY3, rates are higher than they would have been absent levelization. In other words, were rates to continue at that level in the next period, which for convenience will be referred to as RY4, the Companies would be charging rates designed to result in revenues above the Companies' approved costs of service. In order to address this complication, the Joint Proposal recommends allowing the Companies to continue to charge rates at the RY3 levels during the first six months of 2020 if they have not filed for new rates to be effective during that time, however, when the Companies submit revised tariff leaves for RY3, they would be required to include an appendix that demonstrates what rates would have been in RY3 on an un-levelized basis. Then, for any period between January 1, 2020 and July 1, 2020 for which the RY3 rates remain in effect, the Companies would be required to defer revenues resulting from the effect of levelization for customers benefit. The Companies would be allowed to utilize a portion of these deferral to support incremental investments only if the Companies' ROE is below 9%. Should the Companies not file for new rates to be effective by July 1, 2020, as of that date, the property tax reconciliation would become downward only, and the Companies would defer for the benefit of customers 100% of the revenue equivalent of earnings in excess of 9.0%. Further, the Companies would be required to make tariff filings to revise their rates to collect only the calculated revenue requirement amounts for RY3 as of July 1, 2020. This provision meets parties concerns regarding the timing of the Companies' next rate filings, in a reasonable, equitable and flexible manner and should be adopted.

18. Estates

This provision ensures that Estates has flexibility in assessing its needs for non-firm vs. firm service from KEDNY during the pendency of the IT/TC Collaborative, discussed above in Section B.10.7. This provision provides a KEDNY customer with many accounts with reasonable flexibility while interested parties review and potentially recommend changes to KEDNY's IT/TC service classes and should be approved.

19. ECOS Study to be Presented in Next Base Rate Cases

ECOS studies are complicated and the review of such studies can be time consuming. In order to facilitate interested parties review of the ECOS studies in the next rate filing, the Companies have agreed to include the results of a variation of the ECOS studies that classifies mains as 100% demand. This provision is reasonable because it provides additional information to parties in the Companies' next rate proceedings while not binding any party to particular positions in that future proceeding.

20. SC 2 Data

As explained in the Joint Proposal sections on the RDM and weather normalization adjustment, SC 2 is a large and diverse service class. The Signatory Parties agreed to segment the SC2 class based on usage and collect billing data over RY 2 and RY 3 to develop a more granular cost of service study in the next rate filing. This will enable consideration of changes to SC2 in the Companies' next rate proceedings. Modifying SC2 will allow for erasing the heat and non-heat distinction, which may avoid future customer complaints regarding migration; developing a standard RDM mechanism; and honing the rate design to better provide cost signals to customers. Accordingly, this provision is reasonable and should be adopted.

21. NYFS Costs

The NYFS is a high pressure gas transmission system that spans the territories of KEDNY, KEDLI and Con Edison. The three companies have an agreement that allocates carrying costs and O&M costs to each other. These costs are included in KEDNY and KEDLI's revenue requirements and are recovered from customers at forecast levels, which may vary from actual costs. The Companies assumed that the revenue received was equal to the expenses incurred and proposed to reconcile to the actual costs via a new NYFS surcharge mechanism.[170]

---

[170] Ex. 169, p. 60.

A new agreement between KEDNY, KEDLI and Con Edison is being negotiated and, therefore, Staff believes it is appropriate to wait until the agreement was consummated before modifying the ratemaking treatment.[171]

The Joint Proposal reflects the current revenues and costs, and adopts Staff's recommendation that the ratemaking treatment remain unchanged until a new agreement is reached. At that time the Companies can file a proposal for a different mechanism with the Commission. This provision is reasonable because it provides an incentive for KEDNY and KEDLI to work toward an agreement with Con Edison that protects their customers.

22. Corporate Structure and Affiliate Rules

The Commission last addressed KEDNY and KEDLI's corporate structure and affiliate rules in 2007.[172] Corporate structure and affiliate rules for the Companies sister utility, NMPC, were most recently addressed by the Commission in 2013.[173] This provision, and Appendix 12 to the Joint Proposal set forth an updated corporate structure and affiliate rules that remove some language relevant to the active combination of National Grid and KeySpan, and to harmonize the rules applicable to KEDNY and KEDLI and those applicable to NMPC, where possible. Therefore, the provision is reasonable and should be adopted.

23. Storm Hardening Collaborative

KEDNY proposed spending approximately $15 million on storm hardening projects to replace mains in flood prone areas and to install automatic shutoff valves.[174] CNY expressed concerns about the susceptibility of KEDNY's gas system to flooding and storms and the work that the Company would do to harden

---

[171] Ex. 332, p. 38.

[172] Case 06-M-0878, National Grid PLC and KeySpan Corporation – Merger, Abbreviated Order Authorizing Acquisition Subject to Conditions (issued August 23, 2007).

[173] Cases 12-M-0201 and 12-G-0202, NMPC – Electric and Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013).

[174] Ex. 42, p. 57.

its system.[175] The Joint Proposal provides that a collaborative would commence 60 days after Commission adoption of the Joint Proposal to consider potential improvements to KEDNY and KEDLI's gas distribution system. As detailed in Appendix 8 of the Joint Proposal, the collaborative is intended to develop recommendations for future storm hardening and resiliency projects, strategies for addressing climate change risk factors and guidelines for incorporating climate change projections in long term capital planning. The Companies will file a report with the Secretary to the Commission summarizing the outcome of the collaborative and seeking Commission action, as necessary.

C. Other Provisions

The Joint Proposal contains a number of provisions that provide general terms for the agreement. These provisions, contained in section C, Other Provisions, of the Joint Proposal, represent matters that were not disputed by any parties and are uncontroversial in nature. Additionally, these terms and conditions are in general conformance with those typically seen in rate plans of this type.[176] These provisions are reasonable and should be adopted.

CONCLUSION

The terms of the Joint Proposal entered into in this case fully satisfy the Commission's Settlement Guidelines. Taken as a whole, the Commission can reasonably conclude that the terms of the Joint Proposal would fall within the potential result of a litigated case. As noted above, the fact that KEDNY, KEDLI, Staff, CNY, EDF, GEE, Direct, CPA, Estates and Spring Creek Towers have signed on to the Joint Proposal, and that UIU and LIPA are not opposing the Joint Proposal, testifies to the proper balancing of the interests of ratepayers and KEDNY

[175] Ex. 402, pp.7-22.

[176] 2015 Central Hudson Rate Order.

and KEDLI contained in its terms. The Joint Proposal significantly continues and advances the Commission's goals and policies, while minimizing the potential economic impact of the recommended rate increases on ratepayers. KEDNY and KEDLI, meanwhile, will receive sufficient funds to operate and manage its electric and gas businesses, and maintain safe and reliable service.

For all of the above reasons, Staff respectfully recommends that the terms of the Joint Proposal be found to be in the public interest and adopted by the Commission in their entirety.

Respectfully submitted,

/s/

Brandon F. Goodrich
Steven J. Kramer
Nicholas Forst
Staff Counsels

Dated: September 16, 2016
Albany, New York