STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 14-E-0493 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service.

CASE 14-G-0494 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service.

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

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INTRODUCTION

On June 5, 2015, Orange and Rockland Utilities, Inc. ("Orange and Rockland" or "the Company"); Staff of the New York State Department of Public Service ("Staff"); the Utility Intervention Unit, Division of Consumer Protection, New York State Department of State ("UIU"); Pace Energy and Climate Center ("Pace"); The Columbia Center for Climate Change Law ("Sabin Center"); the Retail Energy Supply Association ("RESA"); and the Department of Defense and All Other Federal Executive Agencies ("DOD/FEA"), 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 an Electric Rate Plan and Gas Rate Plan for Orange and Rockland to begin on November 1, 2015.

BACKGROUND

On November 14, 2014, Orange and Rockland submitted tariff leaves, pre-filed testimony and exhibits[1] in support of a rate increase of $33.4 million for electric operations and $40.7 million for gas operations for the Rate Year November 1, 2015, through October 31, 2016 ("RY1").[2] If adopted as filed by Orange and Rockland, the Company's electric delivery rates would increase by

[1] The pre-filed testimony and exhibits of Orange and Rockland and other parties is discussed herein for the sole purpose of comparing provisions of the Joint Proposal to the parties' pre-filed positions as a proxy for potential outcomes were this case full litigated.

[2] The tariff leaf amendments were suspended by successive notices of the Secretary to the Commission ("Secretary") through October 30, 2015. Cases 14-E-0493 and 14-G-0494, supra, Notice of Suspension of Effective Date of Major Rate Changes and Initiation of Proceedings (issued December 5, 2014), and Notice of Further Suspension (issued April 7, 2015).

approximately 11.5%, with a total customer bill increase of 5.2%.[3] The Company's gas delivery rates would also increase by approximately 35.1%, resulting in an overall bill increase of 16.8%.[4] Although Orange and Rockland did not propose an alternative multiple year rate plan in its filing, the Company indicated that it was open to a multi-year agreement.

The primary rate drivers identified by the Company in support of its rate filings for electric and gas operations are the growth in rate base resulting largely from substantial increases in net plant, along with the associated depreciation expense from the increased plant investments, and increased property taxes. For gas, property taxes (deferred amounts from past periods, together with a forecast of RY1 property tax expense) account for over half of the requested increase. Additionally, for electric, the Company has a very large deferred storm reserve balance ($74.8 million as of June 30, 2014), attributable in large part to Superstorm Sandy.

A procedural conference was held on January 6, 2015, before Administrative Law Judges ("ALJs") Sean Mullany and Michelle Phillips in Albany, New York. The conference was attended by the Company, Staff, the UIU, the Town of Ramapo,[5] and the County of Rockland, each "Active Parties" to these proceedings. 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 January 23, 2015, ALJs Mullany and Phillips adopted a case schedule as follows: Staff and Intervenor direct testimony due March 20, 2015, rebuttal testimony due April 10, 2015, and an evidentiary hearing to begin May 4, 2015.[6]

On February 13, 2015, the Company filed its preliminary update, resulting in a decrease to its proposed electric revenue requirement by approximately $8.2 million, from $33.4 million to $25.2

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[3] The Commission last set electric rates for Orange and Rockland in Case 11-E-0408, in which the Commission established a three-year rate plan for the rate years ended June 30th 2013, 2014 and 2015. Case 11-E-0408, Orange and Rockland Utilities, Inc. – Electric Rates, Order Adopting Terms of Joint Proposal, With Modification, and Establishing Electric Rate Plan (issued June 15, 2012) ("2012 Electric Rate Plan").

[4] The Commission last set gas rates for the Company in Case 08-G-1398, in which the Commission established a three-year rate plan for the rate years ended October 31st 2010, 2011 and 2012. Case 08-G-1398, Orange and Rockland Utilities, Inc. – Gas Rates, Order Adopting Joint Proposal and Implementing a Three-Year Rate Plan (issued October 16, 2009) ("2009 Gas Rate Plan").

[5] The Town of Ramapo was represented at the procedural conference by Daniel Duthie. Thereafter, additional municipalities located in the Company's service territory chose to participate in the proceedings and Mr. Duthie now represents all of these municipalities, collectively known as the "Municipal Consortium."

[6] In the ruling, ALJs Mullany and Phillips also granted party status for the following entities: UIU, the Town of Ramapo, RESA, GDF Suez Energy Resources NA, Inc., the County of Rockland, Constellation Energy Nuclear Group, LLC, E Cubed Company, LLC and the International Brotherhood of Electrical Workers, Local Union 503. Thereafter, additional parties were granted party status, including DOD/FEA, Pace and Sabin Center.

million, and a decrease to its gas electric revenue requirement of approximately $1.7 million, from $40.7 million to $39.1 million. According to the Company, these decreases were primarily attributable to lower than forecasted actual net plant additions through December 2014, lower projected interest rates as part of the updated capital structure and rate of return calculation, additional net credits that resulted from updates to the regulatory deferred balance for actual activity through December 31, 2014, and lower than forecasted property taxes.

On March 20, 2015, Staff, UIU, Pace, and Sabin Center each filed direct testimony and exhibits in response to Orange and Rockland's initial filing, as updated on February 13, 2015. Staff's pre-filed testimony and exhibits recommended a one-year revenue decrease of $0.6 million for electric and a one-year revenue increase of $14.7 million for gas.

On April 8, 2015, the Company filed a letter with the Secretary, pursuant to 16 NYCRR §3.9, to provide notice of impending settlement negotiations in these proceedings. Specifically, the letter noted that the Company, Staff and other parties had agreed to enter into settlement negotiations beginning on April 15, 2015.

On April 10, 2015, Orange and Rockland, Staff, UIU and the Municipal Consortium all filed rebuttal and/or update testimony and supporting exhibits. At that time, the Company revised the RY1 electric revenue requirement that it had supplied on February 13, 2015, increasing it by approximately $8.7 million, from $25.2 million to $33.9 million. The Company also revised the RY1 gas revenue requirement, increasing it by approximately $5.2 million, from $39.1 million to $44.2 million. According to Orange and Rockland, these increases were largely attributable to the elimination of duplicate tax deductions associated with the cost of removal for retired plant that were erroneously included in the Company's initial and preliminary update filings; updates and corrections of the Company's electric net plant forecast, along with the associated depreciation expense; and the acceptance of various gas program changes advocated by Staff.

Settlement negotiations commenced on April 15, 2015, and continued on a number of occasions thereafter in Albany and via teleconference. The Company, Staff, DOD/FEA, UIU, RESA, Pace, the County of Rockland and the Municipal Consortium participated in all or some of the settlement conferences. On April 24, 2015, the Active Parties present at a settlement conference made a motion before the ALJs requesting that the evidentiary hearing, scheduled to begin on May 4, 2015, be postponed by two weeks to allow for settlement negotiations to continue. On April 27, 2015, ALJ Mullany granted this request to reschedule the hearing to begin on May 18, 2014, and a notice to that effect was issued by the Secretary on May 1, 2015. On May 7, 2014, the Active Parties who were engaged in negotiations notified ALJs Mullany and Phillips that an agreement in principle had been reached to resolve the issues presented in these cases, and requested that the evidentiary hearing be postponed in order to provide time for the parties to submit a Joint Proposal. The ALJs granted a revised schedule for these cases, requiring that the Joint Proposal be filed by May 29, 2015, the Statements in Support (or Opposition) be filed by June 19, 2015, and Replies be filed by June 26, 2015. On May 14, 2015, the Secretary issued a subsequent notice postponing the evidentiary hearing, noting that a new hearing date would be announced by a separately issued notice.

Thereafter, on May 28, 2015, the negotiating parties requested permission for an extension to file the Joint Proposal no later than June 5, 2015, and to file Statements in Support (or Opposition) on June 26, 2015, and Replies on July 3, 2015. On May 29, 2015, ALJ Mullany granted the Active Parties' request and adopted the proposed schedule. Staff, on behalf of the Signatory Parties, filed the Joint Proposal with the Secretary and the ALJs on Friday, June 5, 2015. On June 22, 2015, the Secretary issued a notice scheduling an evidentiary hearing for August 4, 2015.

Pursuant to Public Service Law ("PSL") §66(12), Orange and Rockland caused a notice of its rate filing to be published in The Journal News and The Times Herald Record on November 19 and 26, and December 3 and 10, 2014 . In addition, the notice of proposed rulemaking pursuant to State Administrative Procedure Act §202(1) was published in the State Register on February 18, 2015.

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 Orange and Rockland's ability to provide safe and adequate service, and to the extent feasible and appropriate, provide a resolution to other issues raised by intervenors. One of the key provisions of the Joint Proposal, Section A, is the recommended two-year term for the Electric Rate Plan, and the recommended three-year term of the Gas Rate Plan (collectively, "Rate Plans"). Under the Rate Plans, RY1 is the 12 months ending October 31, 2016; Rate Year 2 ("RY2") is the 12 months ending October 31, 2017; and Rate Year 3 ("RY3") is the 12 months ending October 31, 2018. The Electric Rate Plan proposes annual revenue increases of $9.3 million and $8.8 million in RY1 and RY2, respectively. The Gas Rate Plan proposes annual revenue increases of $27.5 million, $4.4 million, and $6.7 million in RY1, RY2 and RY3, respectively. The

Signatory Parties recommend that the Commission levelize the increases in the Gas Rate Plan, which would result in annual levelized revenue increases of $16.4 million in each of RY1, RY2 and RY3.[7]

The levelization proposed in the Gas Rate Plan mitigates the impact of the RY1 increase. The levelized rate increases include interest accrued on the portion of a given Rate Year's indicated increase deferred to another Rate Year within the term of the Gas Rate Plan. Without recognition of this fact, levelizing the rate increases would result in rates at the end of RY3 that are higher than would otherwise result. Accordingly, $5.8 million of the RY3 increase would be implemented through base rates, while the remaining $10.6 million would be collected through a temporary surcharge, via the Monthly Gas Adjustment ("MGA").

The Signatory Parties predicated each of the Rate Year revenue requirements on a return on equity ("ROE") of 9.0%, as indicated in Appendices 1 and 2 to the Joint Proposal.[8] Additionally, Section C of the Joint Proposal details earnings sharing between ratepayers and shareholders in the event the Company achieves earnings more than 60 basis points above the level authorized in each Rate Year.

Section D addresses the Company's capital expenditure plans during the Electric and Gas Rate Plans. The provisions in this section set net plant targets, based upon the Signatory Parties' agreed upon levels of capital expenditures, and provide for a downward only true-up of any variance between the target set in rates and actual net plant levels. The reconciliation mechanism simultaneously protects ratepayers while providing the Company with the necessary flexibility to continue providing safe and reliable service. This provision also gives the parties the option to monitor project progress and related expenditures. Section D also addresses the implementation of an advanced metering infrastructure ("AMI") system. The Joint Proposal provides funding in rates while allowing the Company, Staff and other interested parties to collaborate on the development of a final AMI Business Plan, which the Commission can review and approve, modify or reject at a later date.

As with other rate plans adopted by the Commission, the Joint Proposal allows for the reconciliation of a number of expense items to the levels assumed in rates. These reconciliations, detailed in Section E of the Joint Proposal, protect ratepayers from under-spending in these categories, and in a number of cases – where the expense in question is not entirely within the

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7 As the RY1 and RY2 electric increases are relatively similar amounts, levelizing those increases would not serve a significant purpose.

8 Appendix 1, p. 4 of 4 and Appendix 2, p. 6 of 7.

Company's control and is difficult to forecast with a reasonable amount of certainty – protect the Company when actual expenses rise above the levels assumed in rates.

Section F of the Joint Proposal covers a number of subjects, including depreciation rates, interest on deferred costs, and the treatment of property tax refunds which may be achieved during the term of the Rate Plans. Section F also describes a number of gas programs, including a workforce development program, first responders training, compressed natural gas/natural gas vehicle market development, and a network enhancement program.

Section G of the Joint Proposal addresses issues related to the Commission's ongoing Reforming the Energy Vision ("REV") proceeding. This section includes discussion of the Company's Pomona Distributed Energy Resources ("DER") program and cost recovery for REV Demonstration Projects.

Section H details the electric and gas revenue allocation and rate design proposals, as well as other tariff changes. Section I provides for the continuation of the current Electric Reliability Performance Mechanism, and the continuation, with beneficial modifications, of the Gas Safety Metrics and the Customer Service Performance Incentive Mechanism. Section J commits Orange and Rockland to review a study on the impact of climate change on its sister utility, Consolidated Edison Company of New York, Inc. ("Con Edison"). Section K addresses various customer service issues including outreach and education, mandatory day ahead hourly pricing and same-day electric service reconnections.

Of note, Section L of the Joint Proposal calls for an increase of the monthly discount provided to residential customers participating in the electric and gas low income assistance program, and a continuation of the waiver of reconnection fees for those customers. Section M provides for a number of collaboratives, through which the Company will meet with Staff and interested parties on issues such as AMI and the Company's Pomona DER program. Section M contains standard miscellaneous provisions commonly included in rate proceeding joint proposals.

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.[9] 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.[10]

The Joint Proposal entered into in this case resolves all outstanding issues presented in pre-filed testimony and settlement negotiations. In doing so, it fully comports with the Commission's Settlement Guidelines. The fact that Orange and Rockland, Staff, UIU, Pace, RESA, DOD/FEA, and the Sabin Center 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 that the Joint Proposal is an agreement reached between normally adversarial parties.

Comparing the pre-filed positions 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 Company would otherwise have sought through litigation at the time the Joint Proposal was executed; at the same time, the proposal allows for rate certainty. The Joint Proposal contains various provisions that place a strong emphasis on Orange and Rockland managing its costs, and provides enhanced incentives to that end (e.g., net-plant reconciliation, the gas safety performance metrics and customer service performance mechanism). At the same time, Orange and Rockland will receive sufficient additional revenues enabling it to implement new programs and current and forthcoming REV initiatives, and make repairs and improvements to its electric and gas

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

10 Id. at 31.

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 Company's position in its original filing and Staff's position in its direct pre-filed testimony. Moreover, the 9.0% ROE is comparable to the ROE allowed for other major utilities operating under a Commission-approved multi-year rate plan.[11] 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 PSL, for judging the reasonableness of settlements, namely that safe and adequate service be provided at just and reasonable rates. Further, 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 negotiated agreement.

Support Among the Parties

Support for the Joint Proposal comes from a variety of entities with 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. Although not every party signed on to every issue addressed in the Joint Proposal, most of the Signatory Parties supported every provision contained therein. While UIU did not sign on to the provisions pertaining to the gas revenue requirement, it should be noted that the Company had not sought an increase of its gas rates since the Commission established a three-year rate plan beginning November 1, 2009, and ending October 31, 2012. To mitigate the increases of the gas delivery rates, the Signatory Parties devised a rate design to moderate and levelize rates for gas customers over the term of the three-year rate plan, thereby minimizing any rate shock.

[11] 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 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").

Additionally, as part of the Joint Proposal, the Company agreed to collaborative meetings with Staff and other interested parties on a variety of issues, including the Company's implementation of AMI, the Pomona DER Program, and to share ideas regarding the Company's various REV Demonstration Projects. 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 Company, Staff and other interested 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 both Orange and Rockland, Staff and other parties in their pre-filed 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, many parties actively participated in the settlement negotiations process.[12]

The appendices to the Joint Proposal represent a detailed agreement between the Signatory Parties as to the costs and revenues underlying the proposed electric and gas base rates and the various 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 Joint Proposal is reasonable and 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 section 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 the revenue requirement and policy initiative issues, thereby providing improved

[12] In addition, an evidentiary hearing will be held before ALJs Mullany and Phillips on August 4, 2015, at which the record can be further developed.

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 Company's electric and gas services while keeping rates affordable and reasonable. 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 Orange and Rockland, and compare favorably with the outcome of litigation. It is for these reasons that the Joint Proposal should be adopted.

ELEMENTS OF THE JOINT PROPOSAL[13]

A. Term

As noted above, the Joint Proposal envisions a two year term for Orange and Rockland's electric business, and a three year term for the Company's gas business. The two year term for the electric business allows Orange and Rockland and the Commission to review the Company's electric business and implement the Commission's REV initiatives in 2017.

B. Rates and Revenue Levels

1. Electric

As noted above, the Joint Proposal recommends rates and charges designed to produce a \$9.3 million increase in revenues on an annual basis in RY1 and an \$8.8 million increase in revenues on an annual basis in RY2. As these amounts are very similar, the Signatory Parties did not propose to levelize them. The different factors resulting in these overall revenue requirements are discussed in the remainder of this Statement. It is worth noting that, in its pre-filed rebuttal testimony, the Company sought a \$33.9 million increase in RY1 alone. Thus, the increases agreed to in the Joint Proposal reflect a substantial effort by the Signatory Parties to mitigate the rate request. This significant mitigation of the rate request, achieved by normally adverse parties after a thorough review of relevant information illustrates the reasonableness and fairness of the Joint Proposal. The first page of Attachment A to this Statement provides a reconciliation of the revenue requirement

[13] 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.

recommended in the Joint Proposal to revenues collected through currently effective electric rates. The second page of Attachment A shows the changes in revenue requirement from RY1 to RY2.

a. Market Supply Charge/Energy Cost Adjustment

This provision merely notes the continuation of two adjustment clause charges that Orange and Rockland's electric business presently utilizes.

b. Revenue Decoupling Mechanism

The Company currently has an electric revenue decoupling mechanism ("RDM"). The Joint Proposal recommends that the existing mechanism continue with certain modifications. First, as the Rate Years will shift from beginning on July 1 to November 1, the definition of "rate year" in the Company's RDM tariff must be modified to reflect this change. As a corollary, the RDM provision also provides for the period from July 1, 2015, through October 31, 2015. Second, the Company in its pre-filed testimony requested to add reactive power demand charges to the RDM delivery targets.[14] No parties opposed this proposal in their pre-filed testimony, and it is reflected in the Joint Proposal.

Third, the Company, in pre-filed testimony requested that Service Classification ("SC") Nos. 4 and 6, which are municipal street lighting, be added to the RDM. Under SC No. 4, the Company owns street lights and charges municipalities for the fixtures and for the delivery of energy. Under SC No. 6, the municipality owns the street lights and the Company only charges the municipality for the delivery of energy. The Company asserts that when municipalities purchase the existing street lighting systems and switch from SC No. 4 to SC No. 6, the Company loses revenues that are assumed in rates. Staff and other parties opposed the inclusion of these service classes in the RDM. The Signatory Parties agreed not to include these service classes in the RDM. However, when the Company seeks to transfer a street lighting system to a municipality, it must request Commission authorization under Public Service Law §70. When it does so, Orange and Rockland may seek recognition of lost revenues, if any are expected before its rates are next set, in the treatment of the proceeds from the sale of the street lighting system. The Joint Proposal's resolution of the electric RDM issues presented is reasonable and should be adopted.

c. Other Charges

This provision allows Orange and Rockland to make a tariff filing if it becomes subject to any new governmental or regional transmission organization or generation-related costs or credits

[14] Company Electric Rate Panel, Initial, p. 17.

not already covered by the Market Supply Charge or Energy Cost Adjustment tariff language. This is reasonable as it merely allows the Company the ability to recover currently unforeseeable costs imposed upon it. Further, it requires the Company to file a tariff amendment for Commission review before it can recover such costs.

2. Gas

As noted above, the Joint Proposal recommends rates and charges designed to produce a $27.5 million increase in revenues on an annual basis in RY1, a $4.4 million increase in revenues on an annual basis in RY2, and a $6.7 million increase in revenues on an annual basis in RY3. The Signatory Parties recommend levelizing these amounts, after which the annual revenue increases would be $16.4 million in each Rate Year. The different factors resulting in these overall revenue requirements are discussed in the remainder of this Statement. It should be noted that, in its pre-filed rebuttal testimony, the Company sought a $44.2 million increase in RY1 alone. Therefore, the increases agreed to in the Joint Proposal reflect a substantial effort by the Signatory Parties to mitigate the Company's rate request. This significant mitigation of the rate request, achieved by normally adverse parties after a thorough review of relevant information, illustrates the reasonableness of the Joint Proposal. The first page of Attachment B to this Statement provides a reconciliation of the revenue requirement recommended in the Joint Proposal to the revenues collected through currently effective gas rates. The second page of Attachment B shows the changes in revenue requirement from RY1 to RY2.

As is the general practice when proposing a levelized rate plan, the Signatory Parties recommend implementing only a portion ($5.8 million) of the RY3 increase through base rates, and the remainder ($10.6 million) through the MGA charge. This is necessary in order to ensure that rates at the end of RY3 are no higher than they would have been absent levelization. This ensures that the Company has appropriate rates for the following rate year, should the Company not file for new rates to be effective immediately after RY3.

a. Gas Supply Charge/MGA

This provision merely notes the continuation of two adjustment clause charges that Orange and Rockland's gas business presently utilizes.

b. Revenue Decoupling Mechanism

Pursuant to the 2009 Gas Rate Plan, Orange and Rockland currently has an RDM in place that reconciles its gas revenues using a revenue per customer ("RPC") approach. The RPC target and actual customer counts determine the total revenue that the Company should collect. The

Company did not propose to change this method in its pre-filed testimony. Staff, however, proposed a change to the method in RY2 and RY3. Under the current method, total revenue targets for out years were set in the rate plan, with RPC targets set at the conclusion of RY1, using the actual customer count from RY1. The problem with this method is that it discourages the Company from adding customers in the first Rate Year, since adding customers would lower the RPC targets in RY2 and RY3. For this reason, Staff proposed to set RPC targets during the Gas Rate Plan for all rate years based on projected customer counts and revenue requirements. The Joint Proposal incorporates this recommendation. Inasmuch as this method encourages the Company to grow its gas customer base throughout the Gas Rate Plan, a primary goal of the Commission,[15] this provision is reasonable.

c. Base Rate Imputations

The Joint Proposal includes base rate imputations for revenues expected from non-firm gas customers. The amount of base rate imputation for Power Generation remains at the current level of $650,000. The Joint Proposal reflects an increase in the base rate imputation for interruptible sales benefits, since the delivery rate cap for interruptible customers has also increased. The sharing method for any variances between the amounts imputed into base rates and actual revenues has not changed for either Power Generation or interruptible benefits; Power Generation will still be reconciled 100% with customers above or below the amount in base rates, and interruptible benefits will still be shared on an 80% customer/20% Company basis. This sharing ratio ensures that the Company has a share in the financial benefit from interruptible revenues, which will encourage the Company to maximize interruptible revenues within the parameters of its tariffs and the competitive market for alternative fuels available to interruptible customers. It is, therefore, reasonable and should be adopted.

d. Lost and Unaccounted For Gas

In its pre-filed testimony, Orange and Rockland proposed that the incentive mechanism applicable to lost and unaccounted for gas ("LAUF") use a line loss factor ("LLF") set each year using the most recent five year average actual LAUF. Pursuant to this proposal, the LAUF incentive dead band would be set each year at two standard deviations above and below the LLF. In recognition of the natural volatility of line losses, no incentive or penalty would be earned or

[15] Case 12-G-0297, Proceeding on Motion of the Commission to Examine Policies Regarding the Expansion of Natural Gas Service, Order Instituting Proceeding and Establishing Further Procedures (issued November 30, 2012).

incurred by the Company within the dead band, as has been the practice since the previous rate plan. Any losses between two and four standard deviations above the LLF would result in the assessment of a penalty on the Company. The Company proposed that ratepayers would pay for any losses four standard deviations above the LFF. The Company also proposed to calculate line losses as a total system throughput, as opposed to the current method which uses various accounting adjustments and excludes contributions from wholesale generators, for which the Company had assumed a one percent estimate for losses.[16]

In its pre-filed testimony, Staff proposed the following adjustments to the Company's LAUF proposal: setting a fixed LLF and dead band for the duration of the Gas Rate Plan;[17] having any losses above the dead band result in a penalty assessed to the Company;[18] including losses from wholesale generators in the calculation of the LLF, but with additional conditions to more accurately represent actual losses based on a previous Commission ruling;[19] and the implementation of a System Performance Adjustment ("SPA") Mechanism to ensure that transportation customers are reconciled to actual LAUF. Currently, only full service customers are reconciled for the difference between actual gas purchased to account for line losses, based on the target LLF set in this case, and actual line losses. The SPA Mechanism would provide the same reconciliation for transportation customer.[20]

The Signatory Parties agreed to the following terms. First, the LLF will be reset each year as the most recent five year average line loss. The dead band, set using the initial LLF recommended in the Joint Proposal, will remain constant until the next rate case. The dead band will be two standard deviations above and below the initial LLF, unless the bottom of the dead band is below zero, in which case the dead band will be 0% plus four standard deviations. If the actual LAUF is above the dead band, the Company will owe the difference to customers, and if the actual LAUF is below the dead band, the Company will receive a benefit from customers, with the exception that the Company will not receive a benefit for line losses below 0%. Lastly, the SPA Mechanism as proposed by Staff will go into effect.

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16 Carnavos, initial, pp. 32-34.

17 Staff Gas Rates Panel, Initial, pp. 54-55.

18 Id. at 56-58.

19 Id. at 55-56; Case 98-G-0122, Proceeding on Motion of the Commission to Review the Bypass Policy Relating to the Pricing of Gas Transportation for Electric Generation, Untitled Order (issued March 17, 1999).

20 Staff Gas Rates Panel, Initial, pp. 58-59.

Resetting the LLF each year allows the Company to have a smaller balance to reconcile through the SPA Mechanism. Moreover, transportation customers purchase the gas they need plus the current tariff LLF; therefore, resetting the LLF ensures the amount of gas such customers purchase is estimated using the most up-to-date information available. By maintaining a constant dead band until the Company's next rate proceeding, the Company is held accountable for increases in LAUF gas. It also ensures that the dead band will not be reset without a thorough review of all conditions contributing to any change in the amount of LAUF gas.

Finally, wholesale generators should be included in the calculation of actual line losses, which should be based on total throughput, as recommended in the Joint Proposal. Considering LAUF as a calculation of total throughput instead of adjusted sales is a more accurate representation of lost gas, and it is consistent with the practice for other gas utilities in New York State. The Joint Proposal's line loss provisions are reasonable and should be accepted.

3. Common

a. Labor and Productivity

Appendix 22 to the Joint Proposal identifies the direct labor expenses reflecting additional employee positions agreed to by the Signatory Parties. The Joint Proposal also reflects a 1% productivity imputation to direct labor costs. This 1% productivity imputation should be adopted as it is consistent with the Commission's past practice to recognize productivity gains expected as a result of increased investment.[21] In the 2012 Electric Rate Plan and in the 2009 Gas Rate Plan, the Commission adopted a 1% productivity imputation. Additionally, the Joint Proposal in the recent Con Edison case extending the electric rate plan, adopted by the Commission, also reflects a 1% productivity imputation.[22] The productivity imputation is intended to capture unspecified gains in productivity and decrease in operations and maintenance expense expected from increased capital expenditures, and other improvements to the Company's electric and gas systems provided for in this Joint Proposal. Thus, the calculation of 1% of direct labor costs, is a customary proxy for expected productivity gains.[23]

In its initial filing, Orange and Rockland requested 14 new employee positions for its electric operations and nine new employees for its gas operations in RY1. The Company added an

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21 2015 Central Hudson Rate Order, p. 14.

22 2015 Con Edison Rate Order.

23 2015 Central Hudson Rate Order, p. 14.

additional two Engineering Distributed Generation Analysts for its electric operations in its February 2015 preliminary update. In pre-filed testimony, Staff accepted six of the 10 incremental Smart Grid positions[24] and rejected the proposed two Project Management positions,[25] based on existing staffing levels in those two respective areas. Staff also recommended that the additional two Engineering Distributed Generation Analysts proposed in the Company's February 2015 preliminary update mentioned above be accepted.[26] In the Company's rebuttal testimony,[27] it stated that the existing staffing levels provided in response to Staff's information requests did not accurately account for existing staffing levels at that time. The Joint Proposal reflects eight incremental Smart Grid-related positions and no new Project Management positions in RY1 Company Labor expense. In other words, the Joint Proposal adds back two Smart Grid positions the Company had proposed that Staff originally declined to support. The new positions provided for in the Joint Proposal are supported by additional information provided by the Company in its rebuttal testimony and, thus, should be accepted.

In pre-filed testimony, Staff opposed the funding for the creation of two gas Compliance Supervisor positions requested by the Company. However, in the Joint Proposal, Staff has agreed to fund these two positions. The Joint Proposal provides for many gas safety enhancements, such as increased leak prone pipe ("LPP") replacement, tighter targets on existing gas safety metrics and a new Safety Violations Metric. Many of the violations found in past field audits involve either failure to perform timely maintenance, failure to follow procedure, or failure to document that procedure was followed. Thus, in the context of the Joint Proposal as a whole, it is reasonable to provide the additional two positions focusing on the elimination of these violations given the new exposure to negative revenue adjustments. In the end, the public will benefit from the reduced risk of injury to person, property, or environment.

In addition, the electric and gas revenue requirements in the Joint Proposal also reflect direct labor expense for energy efficiency. In its pre-filed testimony, Orange and Rockland indicated that it would file an energy efficiency transition plan ("ETIP") describing the portfolio of energy efficiency programs to be implemented by the Company beginning in 2016. The Company noted that the ETIP filing would "serve as the bridge" between Orange and Rockland's current energy efficiency

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24 Pause, pp. 11-14.

25 Staff Electric Infrastructure Panel, pp. 26-27.

26 Id. at 27-28.

27 Smart Grid Panel, Rebuttal, pp. 2-7; Work, Rebuttal, pp. 1-3.

programs and those to be undertaken pursuant to the REV initiative (i.e., demand-side efforts).[28] Further, the Company's Electric Rate Panel testified that the costs of the ETIP program would be recovered through a surcharge as a component of the Company's existing ECA mechanism.[29]

In its pre-filed testimony, Staff proposed moving the salaries for the 5.5 full time equivalent employees ("FTEs"), reported as energy efficiency labor in the test year, from the Energy Efficiency Portfolio Standard ("EEPS") surcharge, where the salaries are currently recovered, into base rates.[30] In its rebuttal testimony, the Company asserted that the rate allowance in Staff's testimony did not provide for the current complement of energy efficiency employees. Specifically, the Company noted that 2.5 FTEs were added to the energy efficiency workforce during the bridge period to fill vacancies that existed during the test year. Accordingly, there would be a total of eight FTEs for energy efficiency labor for the Rate Year. The additional FTEs were not forecasted in the initial rate filing because the Company did not intend to recover the costs through base rates, but rather through the proposed surcharge. The vacancies were filled in order to support the Company's Small Business and Commercial &Industrial efficiency programs. Staff reviewed the support for the additional 2.5 FTEs, and agrees that the positions are reasonable. As a result, the Joint Proposal provides for the funding of eight FTEs as energy efficiency labor costs in base rates.

b. Sales Forecasts

i. Electric

In its initial filing, Orange and Rockland forecasted a total delivery volume of 3,941,333 megawatt hours ("MWh"), which included demand side management savings ("DSM") due to energy efficiency programs and customer installation of solar panels.[31] The Company projected total delivery revenue of $282.69 million for RY1.[32] The Company stated that its revenue forecast should be used as the basis for setting the RDM targets.[33] In its testimony, Staff forecasted 3,999,818 MWh in delivery volume and delivery revenues of $286.21 million in RY1.[34] In its rebuttal filing, Orange

[28] Company REV Panel, Initial, p. 11.

[29] Company Electric Rate Panel, Initial, p. 19.

[30] Staff Energy Efficiency Panel, p. 13.

[31] Company Electric Forecasting Panel, Initial, pp. 13-14.

[32] Exhibit__(EFP-E1), Schedule 4, p. 3.

[33] Company Electric Forecasting Panel, Initial, pp. 23-24.

[34] Exhibit__(AL-2), p. 1, and Exhibit__(SERP-5), p. 1.

and Rockland increased its forecast of total delivery volumes to 3,946,102 MWh, with accompanying delivery revenues of $283.66 million.[35]

The Joint Proposal provides for a total delivery volume forecast of 3,972,988 MWh, producing revenues of $284.94 million in RY1, and a delivery volume forecast of 3,976,791 MWh with total revenue of $285.71 million for RY2.[36] The RDM targets associated with the sales forecasts are shown in Appendix 18, Schedule 5, pages 1-2. The sales forecasts, and associated revenues and RDM targets specified in the Joint Proposal, were developed based on both Staff's and Orange and Rockland's forecasting models, reflecting the latest available sales data and customer counts. The forecasts are reasonable and should be adopted.

ii. Gas

For gas, Staff and the Company's RY1 sales forecasts differed by approximately $3.4 million in firm sales, and $2.7 million in interruptible sales. The Joint Proposal forecasts splits the $3.4 million sales revenue forecast difference in half to $1.7 million. Additionally, the Joint Proposal incorporates the additional customer growth associated with Staff's network enhancement pilot program into the customer forecast.

The sales forecast is weather-normalized using a 10 year history, as proposed by the Company.[37] Staff had originally proposed using a 30 year history.[38] While the Joint Proposal adopts the Company's preferred 10 year horizon, it also requires the Company to submit an annual report describing the differences between the methodologies used for its gas sales and reliability forecasts. As the sales and reliability forecasts have different aims, this requirement will allow Staff to monitor the Company's forecasting practices to ensure that the reliability forecast is adequate to protect the Company's ability to reliably serve customers even on the coldest days when demand for gas peaks.

For interruptible sales, the Rate Year level will be $3 million, approximately a $0.7 million increase from the Company's Rate Year forecast, but will increase $0.5 million each year to reach $4 million in RY3. This increase is reasonable because it reflects the change to the maximum that the Company can charge interruptible customers. It does so in a manner that balances the Company's desire to slowly phase in an increase to interruptible delivery rates as the market allows with Staff's

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35 Exhibit__(EFP-E2), Schedule 1, p. 2.

36 Joint Proposal, Appendix 4.

37 Company Gas Forecasting Panel, Initial, p. 6.

38 Staff Gas Rates Panel, Initial, p. 13.

desire to offset the proposed rate increase by imputing higher interruptible revenues into base rates, as should be anticipated with the increased interruptible delivery rate cap.

C. Computation and Disposition of Earnings and Cost of Capital

The cost of capital has fallen appreciably since the Company's rates were last set in the 2012 Electric Rate Plan, when Orange and Rockland's RY3 cost of capital in that multi-year rate plan was set at 7.49% (9.6% ROE and 48.0% common equity ratio). As illustrated on page 4 of Appendix 1 and page 6 of Appendix 2, the Joint Proposal's revenue requirement for RY1 reflects an overall cost of capital of 7.10%, consisting of a 48.0% common equity ratio and ROE of 9.0%, a 51.04% long-term debt ratio with a cost rate of 5.42%, and a customer deposits ratio of 0.96% and a cost rate of 1.15%. In RY2 and RY3, the common equity ratio remains at 48.0%, while the long term debt and customer deposits ratios vary slightly from RY1. Additionally, the overall cost of capital decreases slightly to 7.06% for RY2 and RY3, reflecting a reduction in the projected cost rate of long-term debt to 5.35%. In the Company's initial filing, it sought an overall cost of capital of 7.80% consisting of a 48.0% common equity ratio and an ROE of 9.75%, a 51.1% long term debt ratio with a cost rate of 6.08%, and a customer deposits ratio of 0.90% and a cost rate of 1.25%.[39]

The Joint Proposal reflects the Commission's methodology regarding the cost of equity, with allowances made for the Company's acceptance of some terms that increase its potential exposure to earnings shortfalls.[40] Additionally, the Joint Proposal's recommended ROE recognizes the increased financial risk inherent in setting rates over periods longer than one year. The proposed ROE is the same as that adopted by the Commission in three recent orders for KeySpan Gas East Corporation, Central Hudson and Con Edison, respectively.[41] The allocation of risk and the rate of return reflected in the Joint Proposal reasonably balance the return requirements of the Company's investors with customers' expectations of safe and reliable service at just and reasonable rates.

For the duration of the respective rate plans, the Joint Proposal recommends earnings sharing thresholds ("dead bands") set at 60 basis points above the recommended ROE of 9.0%, or 9.6%. Earnings above the threshold will be deemed "shared earnings." Earnings above the

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[39] Company Accounting Panel, Initial, p. 11.

[40] For example, the Joint Proposal contains an expanded gas safety performance mechanism which increases the amount of negative revenue adjustments to which the Company is exposed.

[41] Case 14-G-0214, KeySpan Gas East Corporation d/b/a National Grid – Authority to Defer Costs Associated with Incremental Capital Expenditures and Other Related Relief, Order Directing Investments and Allowing, In Part, Deferral Authority for Costs Associated with Incremental Capital Expenditures and Establishing A Surcharge (issued December 15, 2014), p. 36; 2015 Central Hudson Rate Order; 2015 Con Edison Rate Order.

threshold, but less than 10.2%, are shared equally (50%/50%) between customers and the Company. Earnings equal to or in excess of 10.2%, but less than 10.8%, are shared 75%/25% between customers and the Company, respectively. Finally, earnings equal to or in excess of 10.8% are shared 90%/10% between customers and the Company, respectively.

The use of ESMs is beneficial to customers because it provides the Company with a financial incentive to control its costs, while simultaneously ensuring customers an opportunity to share in those efficiency gains. Additionally, by providing that 90% of all earnings equal to or in excess of 10.8% are credited to customers, the ESM provides a significant safeguard against any potential for excess earning by the Company. The use of earnings sharing thresholds and the tiered nature of the earnings sharing mechanism ("ESM") is consistent with prior multi-year rate plans approved by the Commission.[42] Similarly, the actual threshold level and the widths of the various sharing bands are also generally consistent with past practice.

To ensure the Company's gas customers will continue to share in efficiency gains beyond the expiration of the three-year rate plan, the ESM will continue beyond RY3 until gas rates are reset in a subsequent rate proceeding. Similarly, the ESM for electric will also continue beyond RY2 until new electric rates are in a subsequent proceeding; however, given that it is anticipated that the Company will timely file for new electric rates in order to implement REV objectives and principles, there will be no dead band. All aspects of the ESM for electric operations will remain essentially the same; however, 50%/50% sharing between customers and the Company begins at 9.0%, with 75/25% sharing at 9.6% and 90%/10% sharing at 10.2%.

D. Capital Expenditures and Net Plant Reconciliation

1. Electric

a. Capital Expenditures

In the Company's initial filing, it proposed a number of transmission and distribution capital expenditure projects.[43] It also calculated net plant balances for each of the rate years predicated on its forecasted costs and timelines for these projects.[44] Thereafter, in its rebuttal, the Company provided updated testimony and revised plant balances which took into account the most up-to-date

[42] Cases 13-E-0030, 13-G-0031, 13-S-0032, Con Edison – Electric, Gas and Steam Rates, Order Approving Electric, Gas and Steam Rate Plans in Accord with Joint Proposal (issued February 21, 2014) (2014 Con Edison Rate Order); 2012 Electric Rate Plan.

[43] Company Accounting Panel, Initial, Exhibit AP-E5, Schedule 1.

[44] Id., Exhibit AP-E2.

actual net plant balances available as well as revised forecasts of the Company's plant balances going forward.[45] Additionally, Orange and Rockland proposed to eliminate the current electric net plant reconciliation mechanism, which the Company believes limits its flexibility to shift resources and capture the effects of spending on certain projects above or below the amounts used in determining the net plant levels allowed in rates.[46]

In its initial testimony, the Company proposed capital costs, associated with its smaller, more routine blanket projects (costing under $1 million each), totaling approximately $38 million for each of the rate years.[47] Historically, the Company has budgeted and spent approximately $30-31 million per year on blanket projects. In its pre-filed rebuttal testimony, the Company explained that the increase in proposed blanket spending was primarily due to projects that were yet to be identified.[48] Based on the Company's testimony and its responses to Staff's information requests, Staff, in its initial testimony, recommended a blanket expenditure budget of $31 million for each of the two rate years.[49] The Joint Proposal reduces the Company's original proposal for costs associated with blanket projects by $3.5 million, from $38 million to $34.5 million. The reduction is half the amount recommended by Staff and represents a likely outcome had the proceeding been litigated. This amount will allow the Company to complete necessary work, while the net plant reconciliation mechanism, discussed in the next section, will ensure that any underspending on capital expenditures resulting from underspending on these blanket projects will be deferred for the benefit of ratepayers. The level of capital expenditures in the Joint Proposal is reasonable and should be adopted.

b. Net Plant Reconciliation

Currently in place is the electric net plant reconciliation mechanism, which reconciles the target net plant levels used in setting rates with the actual net plant investment.[50] The current mechanism ensures that the carrying charges on the difference between net plant target levels and lower actual net plant amounts is deferred for the benefit of ratepayers, and provides the Company with the ability to defer the carrying charges with limitation on the difference between the target

[45] Company Accounting Panel, Rebuttal, Exhibit AP-E2.

[46] Company Accounting Panel, Initial, pp.119-121.

[47] Company Electric Infrastructure and Operations Panel, Initial, pp. 15-17.

[48] Company Electric Infrastructure and Operations Panel, Rebuttal, pp 8-10.

[49] Staff Electric Infrastructure Panel, pp. 20-21.

[50] Company Accounting Panel, Initial, p.120.

levels and higher actual net plant levels, in recognition of a slippage adjustment used in setting net plant levels for the rate plan adopted in Case 11-E-0408.[51] As mentioned above, the Company proposed to eliminate the current mechanism. In its testimony, Staff proposed continuation of the current electric net plant reconciliation mechanism, with modification.[52] Unlike in Case 11-E-0408, in this proceeding, Staff did not propose an overall slippage adjustment to the Company's proposed capital expenditures. Reflecting this divergence from the previous case, Staff proposed a downward-only reconciliation, by which the Company would defer, for the benefit of ratepayers, the revenue requirement impact of any under-spending compared to the forecasted net plant target level.

The Joint Proposal adopts this downward-only net plant reconciliation as recommended by Staff. Additional details on how the reconciliation would be carried out cumulatively over the two rate years, including examples, can be found in Appendix 9 of the Joint Proposal. Appendix 9 also contains the net plant targets to be used for reconciliation. The net plant targets exclude the AMI capital projects, which are reconciled separately, as discussed in the next section. Thus, the capital expenditure levels incorporated into the net plant targets provide the Company with the ability to undertake necessary capital work, and the downward-only reconciliation mechanism ensures that ratepayers are protected from underspending. For these reasons, this provision is reasonable and should be adopted.

c. Advanced Metering Infrastructure

Orange and Rockland's AMI proposal was presented in the pre-filed testimony of its AMI Panel. Starting in 2016, the Company proposed to begin installation of 116,000 electric and 91,000 gas AMI meters, and associated communications infrastructure and meter data management systems, across the Rockland County portion of its service territory.[53] This five year implementation plan is estimated to cost $43.3 million with an identified $85.7 million in savings over 20 years.[54]

In pre-filed testimony, the Staff AMI Panel recommended that the Commission's approval of Orange and Rockland's AMI project be conditioned on several steps designed to maximize benefits and minimize risks associated with AMI. The conditions proposed by Staff included: (1) cap the AMI deployment costs that the Company be allowed to place into the rate base; (2) tie recovery of the forecasted AMI meter costs to the number of AMI meters deployed if the Company

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51 2012 Electric Rate Plan, p. 29.

52 Staff Electric Infrastructure Panel, pp. 10-13.

53 Company AMI Panel, Initial, p. 5.

54 Id. at 20.

fails to complete its proposed deployment across Rockland County in a timely manner; (3) require that Orange and Rockland provide detailed plans for customer engagement and include a proposal for an incentive to achieve adequate customer participation in programs enabled by the deployment of AMI; (4) require that Orange and Rockland provide detailed plans for data security, including the conditions under which the data collected would be shared with third parties; (5) require Orange and Rockland to ensure that it retains flexibility in its deployment of AMI to be able to respond to developments in the REV proceeding; and (6) modification of the Company's opt-out proposal and associated fees.[55]

On rebuttal, the Company opposed the expenditure cap, stating that the AMI project should be treated no differently than any other capital project, and noting that any Commission-ordered modifications to the proposal may impact implementation costs.[56] It also opposed establishing a regulatory liability based on the deployment of meters, stating that the Company should not be precluded from recovering funds expended due to any delays to the AMI project schedule, which may be impacted by a variety of circumstances beyond the Company's control.[57] The Company agreed to provide a customer outreach and education plan regarding the implementation of AMI, but opposed tying an incentive for AMI rollout to customer participation in energy efficiency, demand response and other DER market programs.[58] Orange and Rockland offered to provide its data security plans for Staff review, rather than filing such plans, the disclosure of which could potentially impact the effectiveness of security measures.[59] Lastly, Orange and Rockland stated that it intended to continue all of the protections currently provided to customers as required by HEFPA, and that no additional filing should be required regarding these issues.[60]

The Joint Proposal provides for the introduction of the implementation of an AMI project. Funding for the AMI project will be tracked and reconciled separately from other capital expenditures. At the end of the respective Electric and Gas Rate Plans, the Company will book a regulatory liability for any underspending on the project. No deferrals will be made for overspending. Recovery of the full $43.3 million funding level will be tied to completion within five

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55 Staff AMI Panel, pp. 19-20.

56 Company AMI Panel, Rebuttal, pp. 4-5.

57 Id. at 8.

58 Id. at 9.

59 Id. at 10.

60 Id.

years, with consideration for emergencies and other external factors. As described below, the Company will continue to develop its AMI Business Plan and submit a final plan at the time it files its Distributed System Implementation Plan ("DSIP"), which is currently due in January 2016.[61] If the Commission decides to halt or modify Orange and Rockland's AMI system,[62] the Company will be allowed to recover prudently incurred costs; however, it will not be able to recover the costs of any equipment or software that is not ultimately used for an approved AMI system. Additionally, the Company will file a time-varying rates Demonstration Project (which will explain if and how it will integrate AMI, enabling technologies, and customer interface systems), pursuant to the Commission's REV Track One Order.

In order to develop an AMI Business Plan, Orange and Rockland will conduct a collaborative process, through which Staff and interested parties may provide input on the development of the Company's AMI Business Plan. The collaborative participants will also consider the feasibility of providing access to near real-time data to customers and third parties that are authorized to have access to customer data, including third-party energy services providers. The AMI Business Plan will include a customer engagement plan (which will explain how the Company will comply with HEFPA) and a third-party data access plan.

The Joint Proposal provides a path for the implementation of AMI, which has the capability to provide a platform for the Commission's REV initiatives described in the issuances in Case 14-M-0101. With Track Two of the REV proceeding ongoing, and the filing of Orange and Rockland's DSIP expected in January 2016, the societal benefits attainable through the use of AMI will become more clear and quantifiable in the near future. The approach set forth in the Joint Proposal is designed to maximize the benefits of AMI. By providing time for the Company to refine its AMI Business Plan, that plan can incorporate developments in REV, such as the release of the Market Development and Platform Technology report, expected this summer, and address Commission guidance, such as was recently provided regarding Con Edison's AMI Business Plan:

> The Commission directs that Con Edison, in developing the business plan for and functionality of AMI consider ways in which third parties can be an active partner in realizing the totality of the benefits that can be extracted from this technology and information. For example, the Company should consider whether third party

[61] Case 14-M-0101, Reforming the Energy Vision, Order Adopting Regulatory Framework and Implementation Plan (issued February 26, 2015) ("REV Track One Order"), p. 132. The original date of December 15, 2015, was extended to January 15, 2016, pursuant to a ruling issued by the Secretary on April 20, 2015.

[62] The Signatory Parties expect that the Commission would act on Orange and Rockland's AMI Business Plan at the time the Commission considers the Company's DSIP.

> ownership of AMI meters is possible, giving attention to concerns regarding cyber security. The business plan shall also incorporate lessons learned from demonstration projects that incorporate innovative pricing and business models that will allow the utilities to both reduce the expense and gain the full value of advanced communication and AMI implementation. The Commission also expects that the AMI business plan address third-party access to AMI meter data, as required under the Joint Proposal. Moreover, Con Edison is directed to explore how AMI can help facilitate the integration of DER resources into the Distributed System Platform (DSP) associated with REV.[63]

Further, it allows the Commission to review the Company's AMI Business Plan to ensure that the plan provides for the implementation of AMI in a manner that will support the development of the Commission's REV initiatives. The provisions relating to the Company's AMI project are reasonable and should be approved.

AMI and Automated Meter Reading Opt-Out Fees

Automated meter reading ("AMR") and AMI meters enable the automated collection and transfer of consumption data, typically through radio frequency ("RF") transmission. Scientific evidence to date has not shown that low level RF emissions cause a significant health risk. Nevertheless, some customers have voice concerns about RF emissions from radio-equipped meters. Similarly, some customers have very high expectations of privacy and a corresponding low tolerance for security risks or the gather of more granular personally identifiable information enabled by AMI meters.

Associated with the implementation of AMI, in its pre-filed testimony, Orange and Rockland proposed a $15 monthly manual meter reading fee for any customer who opts out of AMI or AMR metering, regardless of whether that customer receives electric, gas or both services.[64] The Company also proposed a one-time AMI or AMR meter change fee of $225 for a combined gas and electric customer, $135 for an electric-only customer and $100 for a gas-only customer.[65]

Staff noted in its pre-filed testimony that the $15 monthly charge proposed by the Company to read both electric and gas meters was reasonable.[66] Staff, however, proposed that the opt-out fee not exceed $10 for a customer with a single meter (i.e. a customer receiving only one service, either gas or electric, from Orange and Rockland).[67] Staff also did not agree with the Company's proposed

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63 2015 Con Edison Rate Order, p. 38.

64 Company AMI Panel, Initial, p. 24.

65 Id. at 25.

66 Staff AMI Panel, p. 36.

67 Id.

one-time meter change fee because that fee was based upon the assumption that a new meter would need to be purchased for each customer who opts out and that the AMI meter that is removed from that customer's property is never used again.[68] Staff noted that the AMI meters could be used again and, thus, the fee should be based solely upon the Company's costs to install AMI meters with the data transmitter turned off.[69] Accordingly, Staff proposed a one-time meter fee of $45 for an electric-only customer, $55 for a gas-only customer and $90 for a combined electric and gas customer.[70]

The Joint Proposal adopts Staff's testimonial position. The Company incurs substantial costs when manually reading electric and gas meters to measure customer consumption across its service territory. The monthly charges of $15 and $10, depending on the customer's service plan, are reasonable fees that cover the additional costs associated with the manual meter readings, costs that the Company will not incur for its customers with AMR or AMI devices. Moreover, such charges are similar to those recently adopted by the Commission in other proceedings.[71] Similarly, the one-time meter change fee is reasonable given that it is equivalent to the costs the Company will incur to install AMI meters with the data transmitter turned off.[72] Pursuant to the terms of the Joint Proposal, the Company will send out a notification letter to residential customers at least 30 days prior to the date schedule for installation of an AMI or AMR meter at the customers' premises, and, customers who fill out the opt-out application, within 30 days of receiving the notification letter, will not be issued an AMI or AMR meter and, thus, will not pay the one-time meter change fee. For customers who have concerns about AMR/AMI meters, these fees would allow them to opt-out of having such meters installed in their homes. The opt-out fees related to the implementation of AMI are reasonable and should be adopted.

d. Reporting Requirements

This provision continues existing annual reporting requirements regarding the Company's capital expenditures.

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68 Id.

69 Id.

70 Id. at 38.

71 Case 14-M-0196, Tariff Filing by Central Hudson Gas & Electric Corporation, Order Approving Proposed Tariff Amendments (issued September 8, 2014) and Case 14-M-0039, Tariff Filing by National Grid and KeySpan Gas East Corporation, Order Approving Proposed Tariff Amendments (issued June 30, 2014).

72 The same charge would apply for a customer who prefers a standard meter to an AMI or AMR meter with the radio device turned off.

2. Gas

a. Capital Expenditures

The Joint Proposal reflects an appropriate level of capital expenditures, as agreed upon by the Signatory Parties, for Orange and Rockland to continue to provide safe and reliable gas service to customers. The increase in gas capital expenditures is driven primarily by the significant increase in contractor costs in Orange and Rockland's LPP main replacement program. These increased costs are demonstrated in the Company's response to Staff information request ("IR") DPS-558, which Staff reviewed prior to the execution of the Joint Proposal.[73] This increased level of capital expenditures will also allow for a higher LPP main replacement target to be undertaken by the Company during the Gas Rate Plan.[74] There is also an increase in the New Business capital expenditure to allow the Company to connect additional customers to its gas system.[75] Additionally, several new distribution and transmission programs are incorporated to improve system reliability and supply.[76] The total gas capital expenditures are $40.2 million, $43.9 million and $44.8 million for RY1, RY2 and RY3, respectively. This also includes the portion of the AMI program allocated to the gas capital budget.

b. Net Plant Reconciliation

The Joint Proposal incorporates Staff's position on the continuation of a downward-only net plant reconciliation for all blankets, distribution, transmission, general equipment and software programs, and the LPP main replacement program.[77] This reconciliation mechanism provides customers with important protections against under-spending that would otherwise not be captured through traditional ratemaking. At the same time, the downward-only reconciliation mechanism applies cumulatively over the three-year Gas Rate Plan, which will allow the Company the flexibility to evaluate its gas system and the capital projects in a timely manner and to make appropriate investments.

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73 Staff IR DPS-558 is an IR asked regarding the Company's rebuttal testimony. Thus, it could not have been included in any parties' pre-filed testimony in this case. In addition, the Company requested that it be treated confidentially, and so is not being provided at this time, though it can be provided to the ALJs upon request.

74 Staff Gas Safety Panel Testimony, pp. 11-12.

75 Staff Gas Infrastructure and Operations Panel, pp. 13-15.

76 Id. at 21-28.

77 Id. at 48-51. Costs for the LPP main replacement program are also subject to the Reliability Surcharge Mechanism ("RSM"), discussed in Section H.2.f. of this Statement.

c. Advanced Metering Infrastructure (AMI)

See Section D.1.c., above.

d. Reporting Requirements

This provision continues existing annual reporting requirements regarding its capital expenditures.

3. Earnings Base Over Capitalization (EBCAP)

In order to ensure that the Company does not earn a return on a rate base that includes more than the actual capital expended by its investors, the Commission commonly requires an earnings based over capitalization ("EBCAP") adjustment. In Staff's review of the EBCAP adjustment for Orange and Rockland in this case, Staff discovered that the Company's initial filing included a total of $83 million accrued pension and other post-retirement employee benefits ("OPEB") items in its EBCAP calculation, which enhances its rate bases.[78] In pre-filed testimony, Staff took exception with the Company's filing on the basis that these pension/OPEB-related items are non-cash and, therefore, should not be considered in the rate base.[79] The Joint Proposal adopts Staff's position on this issue. The electric and gas rate bases reflect EBCAP adjustments of $76.36 million and $40.1 million for electric and gas, respectively, thereby resulting in a reduction of the rate bases by removing the non-cash pension/OPEB related items.

E. Reconciliations

The Joint Proposal contains a number of provisions addressing reconciliations of specific Company expenses. In addition to the (downward-only) net plant reconciliation, the Joint Proposal allows Orange and Rockland to reconcile various elements of expense to the levels provided for in rates, including among others, property taxes, pensions/OPEB, environmental site investigation and remediation ("SIR"), and major storm costs. Except for the discontinuation of a few reconciliations no longer needed, the Joint Proposal continues the reconciliation mechanisms adopted by the Commission in prior rate orders.[80]

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[78] Exhibit__(AP-E2)/(AP-G2), Schedule 10.

[79] Wang, pp. 52-59.

[80] In addition to the reconciliations specifically discussed in this Statement, the Joint Proposal continues a number of existing reconciliations: Non-Officer Management Variable Pay (Joint Proposal §E.7); Asbestos Workers Compensation Reserve (Joint Proposal §E.8); Adjustments for Competitive Services (Joint Proposal §E.10); Low Income Assistance Program (Joint Proposal §E.11); and a catch all "Additional Reconciliation/Deferral Provisions" (Joint Proposal §E.14). Each of these provisions is standard in past multi-year rate plans for Orange and Rockland and their continuation should be approved.

The reconciliation mechanisms in the Joint Proposal are designed to protect both customers and the Company from variations in estimated costs and thereby enhance the stability and consistency in customer rates and recognizes the difficulty in trying to accurately forecast certain costs that are unpredictable in nature and at least partially beyond the Company's control. To that end, actual costs will be reconciled to the levels reflected in the recommended revenue requirements, which are illustrated in Appendices 6 and 7 of the Joint Proposal, with over-recoveries and under-recoveries to be deferred with interest or carrying charges, as applicable, for future Commission disposition (subject to the reduction of certain deferred costs in connection with the earnings sharing mechanism).

It should be noted that these cases were very unusual with respect to the number of material accounting-related differences between Staff and the Company. In all, there were five major areas of disagreement, three of which are related to reconciliations (i.e., the one pertaining to carrying charges on deferred tax liabilities related to bonus depreciation, 263A capitalized overhead, and repair allowance, and the other two pertaining to property taxes and long-term debt cost rates).[81] The Joint Proposal resolves these issues in an equitable manner with respect to existing deferral balances and, prospectively, either modifies or discontinues these particular reconciliations.

1. Capital Expenditures (Electric and Gas)

See Sections D.1.b. and D.2.b., above.

2. Carrying Charges on Deferred Tax Liabilities

Both the 2009 Gas Rate Plan and the 2012 Electric Rate Plan provide for a reconciliation of the deferred tax liabilities in rate bases, related to bonus depreciation/263A capitalized overhead/repair allowance. The Company is required to accrue carrying charges on the variance between its actual deferred tax liabilities and the target amounts reflected in the respective rate plans. With respect to the amounts deferred under the existing reconciliation mechanisms, there is no methodological dispute between the Company and Staff. There was, however, a significant disagreement with respect to the application of the mechanism once the 2009 Gas Rate Plan ended on October 31, 2012. The Company opted not to file for new gas rates to be effective immediately after the expiration of the 2009 Gas Rate Plan. At that time, the Company deliberately froze the level of deferred tax benefits on which full carrying charges were calculated until its rates were reset

[81] The other two disagreements, related to the EBCAP Adjustment and income taxes, are discussed in Sections D.3 and F.8, respectively, of this Statement.

in a subsequent rate proceeding. This was based upon the Company's understanding that the provision of the 2009 Gas Rate Plan should be interpreted as not applicable to tax benefits associated with new plant added after the expiration of that rate plan.[82] Staff estimated a significantly larger regulatory liability than the Company because Staff's calculation continued to apply the carrying charges to the deferred tax benefits associated with new plant and the level in rates.

The Joint Proposal adopts the Company's position. This recognizes that the Company's interpretation of the provision in the 2009 Gas Rate Plan was not unreasonable, as the intent of the provision was to capture any variance during the term of the rate plan, with little apparent thought to the post-rate plan period. It is equitable to allow the Company to retain the carrying charges on the tax benefits generated by plant additions subsequent to the end of the 2009 Gas Rate Plan since the carrying cost of the new plant itself was and is borne by shareholders. Further, this is reasonable in light of the Company's willingness to accept very substantial adjustments to certain other regulatory deferrals.

3. Property Taxes (Electric and Gas)

The Company's existing reconciliation mechanism for property taxes was one of the three existing reconciliations in which Staff and the Company had material differences. To provide the Company with an added incentive to minimize property taxes, the 2009 Gas Rate Plan and 2012 Electric Rate Plan called for 86%-14% sharing of any variances attributable to changes in assessments that impacted Orange and Rockland's property tax expense from the amounts targeted in rates. Additionally, both rate plans allowed 100% recovery of variances attributable to tax rate changes. The intent of the 86%-14% sharing of variances due to changes in assessment was that, in the event that actual property taxes were lower than the levels forecasted in rates, the Company would be rewarded by retaining a portion of those savings; and, conversely, that Orange and Rockland would be required to absorb a portion of higher-than-forecast property taxes in the event actual property taxes exceeded the targeted levels.

Notably, the actual property taxes in the Company's service territory have greatly exceeded the levels forecasted in the 2009 Gas Rate Plan and 2012 Electric Rate Plan. After reviewing the documentation provided by the Company to support its deferral balances, Staff, in its pre-filed testimony, took issue with the methodology that Orange and Rockland utilized to derive the

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82 Company Accounting Panel, Rebuttal, p. 56.

proportions of the total variances attributable to changes in assessments versus changes in tax rates. Unfortunately, neither the 2009 Gas Rate Plan nor the 2012 Electric Rate Plan specified the portion of the increases in forecasted property tax target amounts attributable to changes in assessment. Staff pointed out that the Company's methodology is flawed inasmuch as it has resulted in situations where, in certain rate years, the Company effectively enhanced its net income by retaining a claimed share of savings, pursuant to its interpretation of the reconciliation mechanisms, even though actual property taxes far exceeded the target levels in rates.[83]

Rather than allow the Company to continue reconciling its property taxes until the new rates set in these proceedings go into effect, the Joint Proposal establishes an electric regulatory asset of $13 million (as opposed to the $15.7 million regulatory asset claimed by Orange and Rockland), and a gas regulatory asset of $34.034 million (as opposed to $35.0 million as sought by the Company). In order to mitigate the rate impact of these large deferral balances, the signatories to the Joint Proposal have adopted five-year recoveries, as opposed to the usual recovery over three years. Due to concerns regarding intergenerational inequities, the Signatory Parties did not opt to stretch the recovery of these deferrals over a longer period. This is an equitable and reasonable approach to resolve the issue and, for the reasons discussed herein, should be adopted.

The Joint Proposal discontinues the existing property tax reconciliation mechanism, instead providing for a full and symmetrical reconciliation of property tax variations from the levels provided for in rates, as set forth in Appendices 6 and 7. Orange and Rockland has experienced great volatility in its actual property taxes in recent years. In the 2009 Gas Rate Plan, the property tax targets for the 12 month periods ended October 31, 2011, and 2012, each reflect a 5.45% annual growth rate from the previous rate year. The actual gas property taxes, however, increased by 18.3% and 12.5%, respectively, during those same periods.[84] In the 2012 Electric Rate Plan, the property tax targets for the 12 month periods ended June 30, 2014, and 2015, each reflect a 5% annual growth rate from the previous rate year. The actual electric property taxes, however, increased by 14.8% and 8% during those rate years, respectively.[85]

Nonetheless, the Company's latest state, county, and town ("SCT") property tax bills for calendar year 2015 only reflect a 4.5% growth from the 2014 levels. The Company's latest school

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83 Wang, p. 28.

84 Response to IR DPS-371, Exhibit__(JW-3).

85 Response to IR DPS-370, Exhibit__(JW-3).

tax bills for July 2014 through June 2015 reflect a 5.3% rate of increase from the previous tax period.[86] The combined SCT and school taxes account for about 95% of Orange and Rockland's total property taxes.[87] It is possible that this most recent history is an indicator of future trends. We are now a number of years into the recovery from the recession of 2008. In addition, municipalities have now had a few years' experience with the property tax cap implemented by the State in 2012. Accordingly, Staff recommended, and the Joint Proposal includes, property tax levels predicated on the annual growth rates of 4.5%, 5.3%, and 7.1% for SCT, school and village, respectively.[88] In contrast, Orange and Rockland requested levels reflecting overall growth of 8.0% per year. Given the variability and uncertainty of the Company's property taxes, and the fact that the Signatory Parties have used a conservative estimate of property taxes for RY1, RY2 and RY3, a full and symmetrical true-up of property taxes is in the best interest of customers and the Company and should be adopted.

4. Pensions/OPEBs (Electric and Gas)

Orange and Rockland will continue to adhere to the Pension Policy Statement, including the deferral of any differences between actual pension and OPEB expenses and the levels allowed in rates.[89] The levels of pension and OPEB expenses illustrated in Appendices 6 and 7 of the Joint Proposal were not contested, and are based on the latest known actuarial studies that became available in late March 2015.

5. Environmental Remediation (SIR) (Electric and Gas)

The costs included in Orange and Rockland's SIR program primarily relate to the costs of the assessment, monitoring, cleanup and restoration of former manufactured gas plant ("MGP") sites containing environmental contamination for which the Company has been found to be wholly or partially responsible, pursuant to the Federal Comprehensive Environmental Compensation and Liability Act of 1980, and similar State statutes. The Company projected SIR costs to amount to $19.972 million in the linking period (July 1, 2014, through October 31, 2015) and RY1, $6.312 million in RY2, and $7.099 million in RY3. Staff reviewed those costs and determined that the Company's projected costs were generally consistent with the anticipated scope of work for each

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86 Wang, pp. 64-65.

87 Wang, p. 65.

88 Joint Proposal Appendices 6 and 7.

89 Case 91-M-0890, Accounting and Ratemaking Treatment for Pension and OPEBs, Statement of Policy and Order Concerning the Accounting and ratemaking Treatment for Pensions and Postretirement Benefits Other than Pensions (issued September 7, 1993).

site. The Joint Proposal continues deferral accounting for the treatment and recovery of SIR costs and provides that, if the level of actual expenditures varies in any rate year from the levels provided for in rates, such variations will be deferred and recovered from or credited to customers.[90]

As part of its review, Staff also examined the effectiveness of Orange and Rockland's SIR cost mitigation strategies, including whether the Company is actively pursuing insurance cost recovery opportunities for MGP sites. Through that review, Staff learned that the Company is currently engaged in litigation with Travelers Indemnity Company ("Travelers") with respect to Travelers' denial of claims filed by Orange and Rockland under third-party liability policies for SIR costs related to seven MGP sites owned and operated by the Company and its predecessors. Inasmuch as the Company has sought leave from the New York State Court of Appeals to appeal a mid-level appellate court's unfavorable decision, Staff considers this an open issue and did not propose any adjustments to the Company's proposed rate allowances for its SIR program at this time. Given that the outcome of the case is uncertain, Staff believes that this is the most reasonable approach at the present time. Notably, the Joint Proposal gives the Commission the opportunity in the future to consider and address the amount of any claims denied by Travelers related to the seven MGP sites at issue in litigation. Accordingly, the Commission will be able to address this issue, if necessary, when the court case is ultimately resolved. Given the facts known at this time, this provision is reasonable and should be approved.

6. Major Storm Cost Reserve (Electric)

Orange and Rockland has long been authorized to use reserve accounting for its incremental non-capital major storm costs for electric operation. The Joint Proposal continues this treatment, which allows the Company to reconcile actual incremental major storm costs incurred to the levels allowed in rates. Those amounts are $3.733 million in RY1 and $3.851 million in RY2. The funding levels for the anticipated major storm costs are based upon the current authorized level adjusted for inflation.

In addition, the terms of the Joint Proposal provide for the recovery of previously incurred storm costs that exceeded the funding levels provided for in rates for its electric operation. As illustrated on page 1 of Appendix 3, the Joint Proposal provides for the recovery of $59.265 million of such costs. These costs are primarily related to Superstorm Sandy, but also include costs related to other past major storms that occurred prior to November 1, 2014.

[90] 2012 Electric Rate Plan.

Given the sheer magnitude of the costs due to emergency rebuilding, repair and system restoration resulting from Superstorm Sandy, the Joint Proposal allows for a five year recovery of these costs, as opposed to the more traditional three year recovery period. This treatment of the Company's major storm costs is consistent with past Commission practices. Moreover, this approach balances the Company's need to recover material costs with the impact of that recovery on customer rates. For these reasons, the major storm costs provisions are reasonable and should be adopted.

7. Tree Trimming (Electric)

The Joint Proposal continues the downward-only reconciliation mechanism for tree trimming costs. The level of costs allowed in rates, which are also the true up targets, are shown in Appendix 6. The Company in its initial testimony proposed the RY1 target of $8.67 million[91] and stated that it would provide the latest actual expenditures at the time of the Company's update filing.[92] Orange and Rockland provided an updated number for RY1 expenses of $8.4 million, about $240,000 lower than the number in the initial filing.[93] The $8.4 million level is used as the RY1 target. For RY2 and thereafter, the target is $8.57 million, which is about 2% higher than the RY1 target to reflect inflation. No party has opposed continuation of this reconciliation, which defers, for the benefit of the ratepayers, the under-spending, if any, by the Company. This reconciliation is reasonable and should be adopted.

8. Research Development and Expense (Electric and Gas)

This provision continues an existing provision common to multi-year rate plans. In addition to the reconciliation, this section addresses an issue raised by Staff in pre-filed testimony. Staff noted that Orange and Rockland has unspent gas research and development ("R&D") funds.[94] Staff recommended that the Company join the residential methane detector research project of the research and development consortium, NYSEARCH, and that existing R&D funds be utilized for this project to further the installation of methane detectors in residences, particularly multi-family residences.[95] The Joint Proposal recommends maintain the current level of R&D collections and that the Company focus spending of the unspent funds towards additional gas safety-related R&D.

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91 Company Accounting Panel, Initial, Exhibit__(AP-E4), Schedule 9, p. 2.

92 Company Accounting Panel, Initial, p. 86.

93 Preliminary Update Exhibit__(AP-E4), Schedule 9, p. 2; Company Accounting Panel, Rebuttal, Exhibit__(AP-E4), Schedule 9, p. 2.).

94 Staff Gas Policy and Supply Panel, pp. 23-27.

95 Staff Gas Safety Panel, pp. 74-78.

The Company is required to file a plan on how it will use the unspent funds, which can include, among other projects, the residential methane detector project noted above, within 90 days of the final rate order in this proceeding.

9. Tax on Health Insurance Plans (Gas)

The revenue requirement for RY3 includes expected taxes on health plans scheduled to go into effect during that year due to provisions of the Affordable Care Act.[96] The Signatory Parties recognize that there is uncertainty at this point regarding whether those taxes will go into effect as planned, or whether the Federal Government will modify those provisions. As such, the Joint Proposal requires Orange and Rockland to reconcile its actual taxes incurred due to this provision of the Affordable Care Act with the level allowed in rates. This provision is reasonable as it protects customers from paying for costs that the Company may not ultimately incur, and should be approved.

10. Discontinued Reconciliations

The Joint Proposal terminates two reconciliation mechanisms that are currently in effect for both electric and gas, both of which generated substantial disagreement between Staff and the Company. As discussed in greater detail below, the Joint Proposal resolves these differences with respect to the existing deferral balances in a manner consistent with the intent of the 2009 Gas Rate Plan and 2012 Electric Rate Plan. Eliminating these provisions is also beneficial to customers as it transfers additional risk from ratepayers to the Company.

a. Long Term Debt Cost Rate (Electric and Gas)

The 2009 Gas Rate Plan provides for the reconciliation of costs associated with the Company's consolidated long-term debt obligations (both variable rate tax-exempt debt and fixed rate long-term debt obligations). The 2012 Electric Rate Plan, however, only provides for the reconciliation of Orange and Rockland's variable rate tax-exempt securities, a much smaller sub-set of its total long-term debt obligations. Staff found significant flaws in the Company's methodology for deriving its deferral balances under each of these reconciliation mechanisms. Similar to the case with the Company's property tax reconciliation, discussed above, the 2009 Gas Rate Plan and 2012 Electric Rate Plan were not sufficiently explicit with respect to how the calculations should have been performed. The Company's initial filing included substantial regulatory assets pursuant to

[96] 26 USC §4980I.

these reconciliations,[97] while Staff's pre-filed testimony[98] detailed how these calculations should have been performed in keeping with the intent of the 2009 Gas Rate Plan and 2012 Electric Rate Plan. Instead of substantial regulatory assets, Staff testified that the Company should pass back substantial credits to its customers.

The Joint Proposal reflects Staff's position with respect to the disposition of deferrals resulting from the existing reconciliation mechanisms. As with the deferral due to the property tax reconciliations, the Joint Proposal sets an agreed upon amount for gas and electric regulatory liabilities to be amortized over three years. The amounts of these regulatory liabilities can be found in Appendix 3. The Joint Proposal recommends terminating the long-term debt reconciliation for both the Company's gas and electric business. The exceptionally volatile financial markets present at the time of the 2009 Gas Rate Plan are long gone and, as such, utilization of this highly unusual mechanism is no longer warranted. Additionally, given that the Company's variable rate tax-exempt debt is scheduled to mature in August 2015, there is no longer a need to true up this limited portion of its overall long-term debt. Eliminating these true-ups is beneficial to customers. Not only does it place more risk on the Company, but it encourages more cost-effective treasury operations as, until its rates are re-set, Orange and Rockland will benefit only if it is able to achieve lower financing costs than the amounts provided for into rates. The terms of this provision reflect a reasonable resolution to this issue and, thus, should be approved.

b. Deferred Income Taxes – 263A (Electric and Gas)

Both the 2009 Gas Rate Plan and the 2012 Electric Rate Plan provide for a reconciliation of the rate base impacts related to IRS Section 263A capitalized overhead. Those reconciliations required the Company to accrue carrying charges on the differences between the actual deferred taxes on 263A deductions and the amount reflected in rates. These reconciliations were put in place because the Company had claimed a number of fairly aggressive tax deductions that were under audit by the IRS. Because the issue between the Company and the IRS that gave rise to this mechanism has been resolved,[99] the mechanism is no longer necessary and should be terminated.

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97 Exhibit__(AP-E-2), Schedule 3, p. 2; Exhibit__(AP-G-2), Schedule 3, p. 2.

98 Henry, pp. 17, 34.

99 Company Accounting Panel, Initial, p. 117.

F. Additional Rate Provisions

1. Depreciation Rates and Reserves

Orange and Rockland commissioned Gannett Fleming Valuation and Rate Consultants, LLC to conduct depreciation studies for its electric, gas and common utility plant. In its testimony, the Company recommended continuing the application of the current depreciation rates for all 63 electric accounts and 30 gas accounts.[100] The Gannett Fleming studies, however, supported a reduction of the annual electric depreciation expense by about $0.8 million, an increase of the annual gas depreciation expense by about $0.6 million, and an increase of common plant depreciation expense by about $0.8 million.[101]

Based on the results of the Gannett Fleming studies, in its pre-filed testimony, Staff recommended new service lives for 31 electric accounts and 21 gas accounts, and new salvage rates for 21 electric accounts and 12 gas accounts.[102] These recommendations would have reduced electric and gas Rate Year depreciation expenses by approximately $2.5 million and $ 775,000, respectively. Staff's testimonial depreciation expense adjustments also reflected Staff's acceptance of the studies' recommendation with respect to common plant and the amortization of several accounts. Staff also recommended eliminating the capping of salvage rates for two gas accounts, Mains and Services, and, as a corollary, removing approximately $300,000 of excess costs of removal from the Rate Year gas operations and maintenance expenses.[103]

Compared to Staff's litigated position, the Joint Proposal reflects a reduced service life for one electric account, and increased salvage rates for seven electric accounts and six gas accounts. The service lives and salvage rates incorporated in the Joint Proposal further Staff's goal of moving the service lives used to set depreciation rates toward the expected lives provided in the Gannett Fleming depreciation studies and salvage rates toward current experience. In total, the Joint Proposal's electric depreciation rates encompass approximately 80% of Staff's litigated position, which compares favorably to the possible outcome of a litigated proceeding, and hence should be adopted. Similarly, the gas depreciation rates encompass approximately 50% of Staff's litigated position, a likely outcome had the case been litigated and, thus, is a reasonable compromise that should be adopted.

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[100] Company Depreciation Panel, Initial, p. 13.

[101] Id. at 17.

[102] Staff Depreciation Panel, pp. 22-24.

[103] Id. at 26-27.

2. Interest on Deferred Costs

The Company will record on its books and records of accounts various credits and debits that ultimately will be reflected in the rates to be charged to customers. Unless otherwise specified in the Joint Proposal or by Commission Order, the Company will accrue interest on all such book amounts, net of federal and state income taxes, at the other customer provided capital rate published by the Commission annually and applicable on a calendar year basis. Given the short-term nature of these variances, a short-term carrying charge rate is reasonable. Items that are not short-term in nature, such as the Company's existing regulatory assets and liabilities, which are scheduled to be amortized over several years, have financing implications for the Company. Accordingly, these existing regulatory assets and liabilities are, and should be, carried at the Company's rate of return, which reasonably reflects the impacts such items have on the Company's financing requirements.

3. Property Tax Refunds and Credits

As is common in multi-year rate plans,[104] the Joint Proposal recommends that any property tax refunds received by the Company, net of costs to achieve, during the term of the electric and gas rate plans be allocated between customers and shareholders 86%/14%. This is a common allocation for property tax refunds approved by the Commission. Further, allowing the Company to retain 14% of the next proceeds from a property tax refund represents a reasonable incentive for the Company to pursue such refunds. Accordingly, this provision should be approved.

4. Gas Programs

a. Workforce Development Program

In its testimony, Staff proposed that the Company commence a workforce development program with local schools, labor unions and other qualified organizations in an effort to develop future utility workers.[105] This program supports the Commission's goal to increase the LPP replacement rates across all New York State gas utilities. That ramp up, however, may result in a constriction in the availability of qualified contractors. By instituting this program, Orange and Rockland will help increase the amount of qualified workers available to complete these future projects. The funding for this program is built into base rates in the amount of $83,333 in RY1, $166,666 in RY2, and $250,000 in RY3, continuing until the Commission next sets the Company's gas base rates. Given the importance of LPP replacement and the increased number of qualified

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[104] See, 2015 Central Hudson Rate Order.

[105] Staff Gas Safety Panel, pp. 53-58.

utility workers that will be needed to do that work, this program is reasonable and should be adopted.

b. First Responders Training

Staff proposed that Orange and Rockland improve its training for local fire department first responders to gas-related emergencies.[106] Both the Company and fire department first responders play an important role in natural gas emergency response. As a result of an investigation of a natural gas explosion at 52 Zarriello Lane in West Haverstraw on January 16, 2012,[107] Staff identified specific improvements Orange and Rockland could make to its training program for local fire department first responders and its on-scene radio communication with fire department first responders. The Company will provide assistance and work with fire departments to improve and maintain natural gas training facilities at both Orange and Rockland Counties' individual training centers. The enhancement of these facilities will allow Orange and Rockland to provide more comprehensive training to local fire department first responders, including more drills, scenarios, and hands-on activities.

In addition, after the incident in West Haverstraw, Staff learned that Orange and Rockland first responders could not communicate by radio directly with fire department first responders on the scene. The Company has already begun a program to distribute radios, which will enable its first responders to communicate with fire department first responders. The proposed program allocates a one-time funding of $12,000 to allow Orange and Rockland to expand its enhanced radio communication program. The proposed program will further natural gas safety by improving natural gas emergency response through enhanced training and improved coordination between the Company and local fire department first responders. The proposed program improves safety measures, not just for Orange and Rockland's customers and employees, but for the general public as well. Therefore, it is reasonable and should be adopted.

c. CNG/NGV Market Development

The Joint Proposal provides a formal process to analyze and develop a strategic plan to enhance the CNG fueling market in Orange and Rockland's service territory. This enhancement will benefit both residential and commercial customers through increased availability of natural gas as an alternative transportation fuel that is both cost competitive and more environmentally friendly

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[106] Staff Gas Safety Panel, pp. 58-66.

[107] Case 14-G-0175, In the Matter of a Natural Gas Incident at 52 Zariello Lane, West Haverstraw, on January 16, 2012, in the Service Territory of Orange and Rockland Utilities, Inc., Final Report 52 Zariello Lane (filed March 20, 2015).

compared to most other transportation fuels. It is also anticipated that this will be the genesis for encouraging private company interest in operating CNG facilities in Orange and Rockland's service territory.

d. Network Enhancement Program

The Company proposed tariff and rebate modifications,[108] which would reduce potential excess entitlement costs and high efficiency heating equipment costs, thereby reducing the initial cost of converting to gas for potential customers. The Joint Proposal goes beyond the Company's proposed modifications, further enhancing the Company's ability to provide natural gas service in a more streamlined planning process as proposed by Staff in pre-filed testimony.[109] 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. A three-year strategic plan for areas of expansion will also be created to further organize network enhancement efforts with other projects that create cost saving synergies and also allow for future customers to plan their conversions. New customers will benefit through the increased availability of natural gas to new customers, reduced conversion costs to new heating customers, and reduced contributions in aid of construction for customers along existing gas mains, new line extensions and franchise expansion projects. Existing customers will benefit because of economic and environmental benefits brought by the increased availability of natural gas throughout the local communities and through an increased customer base to share the costs of future gas system needs. The economic benefits are provided by increases in the local economy related to job creation and support, and the cost savings of new customers that become available for use within the local economy.

e. Plastic Fusion Remediation Plan

Staff recommended that its plastic fusion remediation plan be funded by the Company's shareholders.[110] The Company requested recovery from ratepayers.[111] The Joint Proposal defers funding of plastic fusion remediation costs to a final generic decision, which is expected in the ongoing Commission proceeding in Case 14-G-0212.

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[108] Scerbo, Initial, p. 6.

[109] Staff Gas Network Enhancement Panel, p. 11.

[110] Staff Gas Safety Panel, pp. 68-74.

[111] Hehir, Rebuttal, pp. 26-27.

5. Allocation of Common Expenses/Plant

Staff's pre-filed testimony noted that costs incurred by the Company in its normal course of business that are not directly assignable to either its electric or gas operations are allocated according to ratios approved by the Commission back in Case 99-G-1695.[112] More recent calculations using the same four-part formula approved by the Commission indicate that more of these common costs should be allocated to the Company's faster-growing gas operations.[113] The Joint Proposal remedies this by directing the Company to address the proper allocation of these costs in its next base rate filings.

6. Revenue Requirement Presentation

This provision merely reflects an agreement between Staff and the Company as to the revenue requirement presentation format that the Company will use when it next files for new rates. This will help to ensure a thorough and efficient review of the Company's next rate filing.

7. Use of Corporate Name

The Company's existing Code of Conduct was implemented in the Commission's Order Authorizing Merger, issued April 2, 1999, in Case 98-M-0961. It addresses corporate structure, as well as affiliate transactions. The Joint Proposal will modify the Company's Standards of Competitive Conduct to ensure that, with limited exceptions, no non-affiliate entity is allowed, by Orange and Rockland or its corporate parent, Consolidated Edison Incorporated (CEI), to use the Orange and Rockland name, trade names, trademarks, service marks or any derivative of the Orange and Rockland name. The Commission has similarly modified the Standards of Conduct in several recent proceedings.[114]

These revisions to the Company's Code of Conduct protect customers from potential misrepresentation by non-affiliates of the utility. Arrangements that allow a non-affiliate to give the impression that it is an affiliate can cause significant customer confusion and perceived deception, particularly if the entity's solicitations cause customers to view it as having come from the utility itself, and not an independent business. The Joint Proposal also acknowledges, however, that the Commission may modify this limitation in a manner applicable to all utilities, and that such

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112 Wang, p. 74.

113 Id. at 69-73.

114 Case 10-E-0050, Niagara Mohawk Power Corporation d/b/a National Grid – Electric Rates, Order Adopting Rate Plan Provisions (issued July 17, 2012); Case 12-M-0192, CH Energy Group, Inc. and Fortis Inc. - Merger, Order Authorizing Acquisition Subject to Conditions (issued June 26, 2013); 2014 Con Edison Rate Order.

modification may be scheduled to take effect during the term of the Rate Plans. The modifications to the Company's Standards of Competitive Conduct are reasonable, and consistent with those of other New York State utilities, and, thus, should be adopted.

8. Federal Income Taxes

In its initial pre-filed testimony, the Company proposed to change its accounting for federal income taxes ("FIT") from the existing flow through method to full normalization for the book and tax timing differences related to cost of removal ("COR") and property taxes.[115] In addition, the Company's initial filing also reflected recovery of regulatory assets on the Company's books for previously flowed through COR and property taxes for financial reporting and ratemaking purposes.[116] In pre-filed testimony, Staff disagreed with the Company's proposed change to full normalization for these items, and, specifically, the recovery of regulatory assets related to previously flowed through amounts, because the Company is not able to prove that the regulatory assets recorded on its books for financial reporting purposes were actually the amounts flowed through to ratepayers.[117] In its pre-filed rebuttal testimony, the Company accepted Staff's position to continue the existing flow through accounting method for FIT and forego the recovery of the regulatory assets related to previously flowed through amounts on COR and property taxes.[118] The Company, however, also identified a material error in its accounting for FIT expense.[119] Specifically, the Company noted that a tax benefit related to removal costs was mistakenly being flowed through to customers twice.[120] First, projected removal costs were reflected as a reduction to FIT expense. Second, the Company's computation of flow through tax depreciation mistakenly added tax depreciation for removal costs as an offset to book depreciation expense, resulting in a double counting of removal costs in determining FIT expense for ratemaking purposes. As a result of correcting this error, the Company's revenue requirements increased by approximately $6 million and $2.4 million in RY1 for electric and gas, respectively. Staff verified the double count error contained in the FIT computation under existing accounting and, as a result, supports the correction

[115] Wang, pp. 66-68.

[116] Company Income Tax Panel, Initial, pp. 3-5.

[117] Wang, pp. 70-72

[118] Company Income Tax Panel, Rebuttal, p. 7.

[119] Id. at 2-7.

[120] This same error affected Orange and Rockland's sister utility Con Edison. The error was corrected when the Commission adopted an extension of Con Edison's current rate plan. 2015 Con Edison Rate Order, pp. 36-37.

of the error on a prospective basis beginning in RY1 for both electric and gas operations. The FIT amounts included in revenue requirement can be found in Appendices 1 and 2 to the Joint Proposal.

G. Reforming the Energy Vision (REV)

The Commission's ongoing REV proceeding has had an impact on this rate case. The Joint Proposal addresses Orange and Rockland's proposed Pomona DER Program; issues related to Demonstration Projects, which Orange and Rockland will undertake pursuant to the REV Track One Order; and finally, a statement ensuring that any REV initiatives that the Commission may want Orange and Rockland to pursue can be implemented during the term of the rate plan.

1. Pomona DER Program

In its initial pre-filed testimony, Orange and Rockland explained that expected load growth in the Pomona area would require the construction of a new substation and a 138kV underground line loop connecting the new substation to the existing West Haverstaw Substation. The new substation and line loop are estimated to cost $55.7 million.[121] In order to forestall the need for this substation, the Company proposes to implement the Pomona DER Program in this area. The Company provided an estimate of costs for the Pomona DER Program for the years 2016 through 2023 of $9.5 million in 2014 dollars. Predicated on this cost, and if the Company can successfully delay the need for the new substation by four years, the Pomona DER Program would provide a net present value benefit to customers of $5.0 million.[122]

Orange and Rockland proposed that it be allowed to earn a return on the investments, even though they are not traditional capital investments.[123] The Company also proposed that it be able to earn an incentive of up to 100 basis points on these investments. Finally, the Company requested a 50% share of any net savings realized due to the Pomona DER Program as opposed to building the new substation.[124] Orange and Rockland proposed to recover the costs of the Pomona DER Program, as well as the return on the investment and any incentives through a surcharge.[125] The Company proposed recovering costs for customer-side expenditures over five years and for company-side expenditures, over 10 years.[126]

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[121] Company REV Panel, Initial, p. 15.

[122] Staff REV Panel, p. 6.

[123] Company REV Panel, Initial, pp. 26-27.

[124] Id. at 27-28.

[125] Id. at 30.

[126] Id. at 32.

In its pre-filed testimony, Staff noted that this benefit cost analysis ("BCA") is a net positive for customers, even though the BCA did not account for benefits that might accrue to owners of DER assets, environmental externalities, or any capacity or energy savings.[127] Staff supported the Company's Pomona DER Program, with certain conditions. Specifically, Staff recommended against the Company's request to keep a share of any savings.[128] Staff also recommended that utility-side energy storage be the only DER assets the Company could own, with case-by-case exceptions.[129] In addition, Staff recommended setting the estimated $9.5 million in 2014 dollars as a cap on spending for the Pomona DER Program, although, if the Company thought it could economically delay the need for the substation for an incremental amount of time, it could request additional funding at a later date.[130] Regarding cost recovery, Staff recommended that the Company amortize the costs of the Pomona DER Program in base rates, over 10 years.[131]

In its pre-filed rebuttal testimony, the Company agreed with some, but not all of Staff's recommended conditions. It took issue with the amount Staff proposed to allow in base rates for recovery of the Pomona DER Program costs, arguing that rather than the $250,000 per year suggested by Staff, base rates should include $800,000 per year.[132]

The Joint Proposal provides base rate funding at a level of $380,000 per year for the Pomona DER Program. This represents the recovery of all costs expected to be incurred in RY1 and RY2 over a 10 year amortization period. The Signatory Parties agreed that the Company's spending on this program should be limited to the $9.5 million in 2014 dollars identified in the Company's benefit cost analysis. The Joint Proposal, however, allows Orange and Rockland to request additional funding for the program, if the Company can further delay the need for the new substation. In addition, the Joint Proposal provides for up to a 100 basis point incentive, divided into 50 basis points for reduction in the costs per megawatt of the Pomona DER Program compared to the costs of the proposed substation and 50 basis points for the actual amount of load reduction achieved. Further, the Joint Proposal makes clear that the Company cannot own DER

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127 Staff REV Panel, p. 7.

128 Id. at 10.

129 Id. at 10-11.

130 Id. at 11.

131 Id. at 10-11.

132 Company REV Panel, Rebuttal, pp. 2-11.

assets other than utility-side energy storage and in limited other circumstances, as defined in the REV Track One Order.

In addition, the Signatory Parties developed a collaborative process that allows Staff and interested parties to exchange ideas and information regarding timely, cost-effective potential solutions for load reduction to meet or exceed the goals of the Pomona DER Program.[133] The Joint Proposal's provisions regarding the Pomona DER Program achieve the goals Staff set out in its pre-filed testimony in a manner which works for all parties. Thus, it is reasonable and should be approved.

2. Demonstration Projects

Pursuant to the REV Track One Order, Orange and Rockland will soon be filing proposed "Demonstration Projects." In that Order, the Commission authorized Orange and Rockland to spend up to $10 million on those projects. The Joint Proposal provides that Orange and Rockland be allowed to create a new component of its ECA in order to collect these already authorized expenditures, when the expenditures actually occur. This allows cost recovery of authorized expenditures in a timely manner and should be approved.

In addition, the Joint Proposal provides that Orange and Rockland will file a time-varying rates Demonstration Project, which will integrate AMI, enabling technologies and customer interface systems. This commitment ensures that, as the Company installs an AMI system in its service territory, the manner in which that system can be used to further the Commission's REV goals is explored.

Further, in order to realize the benefits of an exchange of ideas regarding Demonstration Projects, the Joint Proposal includes REV Demonstration Project Outreach.[134] Through this process interested parties will meet semi-annually and exchange ideas regarding Demonstration Projects that the Company may propose after July 1, 2015. The Joint Proposal makes clear that this process is not intended to supersede or modify any existing processes for the development of Demonstration Projects. Finally, this provision is not intended to limit the Company's interaction with interested parties, nor the Commission's prerogative to require additional or different processes in the future. This provision is reasonable as it provides for the exchange of ideas that may help Orange and Rockland develop effective Demonstration Projects, and thus should be approved.

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[133] Joint Proposal, §M.2.

[134] Joint Proposal §M.3.

3. Future REV Proceeding Issues

In this provision, the Signatory Parties merely recognize that the Commission has ongoing REV proceedings, and that neither this Joint Proposal nor Commission adoption of its terms, is intended to limit the Commission's ability to require Orange and Rockland to take certain actions pursuant to the ongoing REV proceedings. The provision also notes that the Signatory Parties reserve their rights to pursue their respective positions in those other proceedings.

H. Revenue Allocation/Rate Design and Other Tariff Changes

1. Electric

a. Rate Design

The electric revenue allocation and rate design changes incorporated in the Joint Proposal are stated in Appendix 18 attached thereto. As discussed in more detail below, the revenue allocation and rate design changes are intended to gradually move cost recovery to more closely align with the costs as they are incurred. For the reasons that follow, these provisions are reasonable and should be adopted.

Embedded Cost of Service (ECOS)/Revenue allocation

In its initial testimony, the Company proposed to apply one-third of the class-specific embedded cost of service (ECOS) study deficiencies and surpluses in a revenue neutral manner, prior to applying the revenue increases, in order to limit customer bill impacts.[135] The Company then allocated the delivery revenue increase among customer classes in proportion to the relative contribution made by each class to the realigned total Rate Year delivery revenues (i.e., the customer, demand and usage charges, as applicable).

Staff accepted the Company's ECOS study proposal to apply one-third of the class-specific ECOS deficiencies and surpluses.[136] UIU disagreed with the pace at which both the Company and Staff agreed to phase out the surpluses and deficiencies, instead proposing to use a factor of one-fifth.[137] As proposed in its initial pre-filed testimony, UIU also wanted the revenue allocation to take into account different subclasses within SC No. 2 Secondary class.[138] Additionally, UIU disagreed with the Company's ECOS methodology, suggesting that minimum system costs be allocated differently by classifying the minimum costs as "fixed costs," rather than "customer costs," and

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135 Company Electric Rates Panel, Initial, p. 5.

136 Staff Electric Rate Panel, Initial, p. 9.

137 UIU Rate Panel, Rebuttal, p. 5.

138 UIU Rate Panel, Initial, pp. 38-39.

allocating the "fixed costs" equally related to the volume of energy flowing through the system, non-coincident peak demand, and number of customer accounts.[139] Both Staff and the Company filed rebuttal testimony disputing this methodology because costs of the electric distribution system are affected primarily by demand and the number of customers; there is no energy component of distribution-related costs. The electric distribution system is designed to meet non-coincident demand.[140]

The Joint Proposal incorporates the agreement between the Signatory Parties to use one-fourth of the ECOS Study deficiency and surplus indications. The Joint Proposal also separates the SC No. 2 subclasses for revenue allocation and mitigates the revenue changes by class in a manner such that each class does not receive a revenue change that is more than +2.0 times or less than - 2.0 times the overall Rate Year delivery revenue change. Without this additional mitigation, SC No. 2 Space heating customers would see an increase of 13.0% instead of the 6.4% class increase under the terms of the Joint Proposal.[141] This approach is reasonable because it addresses surpluses and deficiencies indicated in the ECOS, while simultaneously mitigating large bill increases to the customers in the deficient classes, therefore it should be adopted.

Customer charge

The Company proposed to increase the customer charge for the following classes: SC No. 1 – Residential, SC No. 19 – Residential Optional Time-of-Use Service, SC No. 2 – Secondary, SC No. 20 – Secondary Optional Time-of-Use Service, SC No. 3 – Primary, SC No. 6 – Public Street Lighting, and SC No. 16 – Private Area Lighting to better reflect customer costs.[142] In its direct pre-filed testimony, Staff proposed to maintain the customer charges at the current levels for SC No. 1, SC No. 19, SC No. 2 - General Secondary non-demand metered and unmetered, and SC No. 20, and supported the Company's proposed increases for the remaining service classes.[143]

UIU in its initial testimony recommended no increases to the customer charges for residential and small commercial customers.[144] UIU further testified that, depending upon the magnitude of the final authorized revenue requirement, a slight decrease to the monthly customer

139 Id. at 27-29.

140 Staff Electric Rates Panel, Rebuttal, p. 5; Demand Analysis and Cost of Service Panel, Rebuttal, pp. 2-3.

141 Appendix 18 of Joint Proposal, Schedule 3, p. 3.

142 Company Electric Rates Panel, Initial, p. 7.

143 Staff Electric Rates Panel, Initial, pp. 14-15.

144 UIU Rate Panel, Initial, pp. 49-50.

charges may be feasible.[145] Similarly, Pace disagreed with the Company's proposal to increase fixed charges, stating that the increases were not warranted, or alternatively, that maintaining current fixed charges would be just and reasonable as a rate design deviation from the practice of assigning costs to variable rate elements.[146]

The Joint Proposal maintains the customer charges at current levels for residential SC No. 1, SC No. 19 and commercial classes SC No. 2 non-demand metered, SC No. 2 unmetered. Appendix 18, Schedule 1 to the Joint Proposal shows the customer charges for RY1 for all service classes. Additionally, there will be no changes to customer charges in RY2. Track Two of the REV proceeding is expected to include a full examination of the current electric rate structures and designs, with specific emphasis on the mass market classes, to see how they might be changed to better achieve New York energy policy goals. The customer charges, as proposed in the Joint Proposal, also mitigate bill impacts for residential and small non-demand metered commercial service classes. This is a reasonable approach, similar to that taken by the Commission its recent Central Hudson Rate Order,[147] and should be adopted.

SC No. 1 Optional Space and Water Heating Service

For SC No. 1 optional space and water heating service customers, the Company proposed to further reduce the discounts by one-third in each of Rate Years so that by RY3, the discounts would be completely eliminated (if a multi-year rate plan were adopted).[148] This approach continued the process introduced in Cases 10-E-0362 and 11-E-0408 of gradually eliminating the discounts.[149] There was no opposition to these proposed reductions. Accordingly, the Joint Proposal reduces the discount by one-third in each of the two Rate Years, which is consistent with the Company's proposal. This gradual elimination of the discount is reasonable and should be adopted.

SC No. 2- Secondary Demand Service

For SC No. 2 – General Secondary demand service, the Company proposed to eliminate 10 percent of the usage rate and demand rate differentials on a revenue neutral basis and then apply a class rate increase to usage and demand rates to continue the phase out of declining blocks.[150] In its

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145 Id. at 7-8.

146 Rabago, Initial, pp. 10-11.

147 2015 Central Hudson Rate Order, p. 57.

148 Company Electric Rates Panel, Initial, p. 9.

149 Id. at 8-9.

150 Id. at 9-10.

pre-filed testimony, Staff proposed to move 20 percent of revenues associated with the first energy block to demand rates and apply those revenues proportionally to the first (less than 5 kW) and second (more than 5 kW) block demand rates. Staff then proposed to apply the class revenue increase to the first block demand rates only, rather than to both blocks in order to flatten the block rates.[151] UIU stated that did not support drastic changes to the existing rate design and was concerned that the resulting rates may not be just and reasonable for small commercial customers – particularly those with poor load factors, and those with load factors that widely fluctuate from month to month.[152]

Because of concerns about possible large bill impacts for low load factor customers by Staff, UIU and other parties, the Joint Proposal, for SC No. 2 Secondary Demand Metered service in RY1, reallocates only five percent of the first block usage revenues to demand rates. For RY2, 10 percent of the first block usage revenues are reallocated to the demand rates. The class increase is applied to both the first block and second block demand rates.[153] This rate design should be adopted because the majority of transmission and distribution costs are demand-related costs and moving the revenue into demand charges more closely aligns how these costs are incurred and collected from customers. Moreover, as previously mentioned, the Joint Proposal's rate design minimizes the impact on low load factor customers. The SC No. 2 – General Secondary demand service rate design terms contained in the Joint Proposal are reasonable and should be adopted.

SC No. 2- Primary, SC Nos. 3, 9 and 22

For SC No. 2 – General Primary Service, the Company proposed to shift 20 percent of the usage revenue into demand revenue on a revenue neutral basis, prior to applying the revenue increase for SC No. 2 - General Primary Service. After this change, the Company proposed to apply the SC No. 2 revenue increase, excluding customer charges to the usage and demand rates.[154]

For SC Nos. 3, 9 and 22, Orange and Rockland proposed to apply the entire increase in non-competitive delivery revenue, excluding customer charges, to increase demand charges, thereby resulting in a higher percentage of revenues for these classes being recovered through fixed charges.[155] Staff's proposal for SC Nos. 2-Primary, 3, 9 and 22 rate design was to reduce usage

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151 Staff Electric Rates Panel, Initial, p. 19.

152 UIU Rate Panel, Rebuttal, pp. 6-7.

153 Joint Proposal, Appendix 18, pp 4-5.

154 Company Electric Rate Panel, Initial, pp. 10-11.

155 Id. at 11.

charges by 20 percent and move the associated revenue to demand charges. For SC Nos. 3 and 22, Staff proposed to apply the revenue increases to demand rates. For SC Nos. 2-Primary and 9, Staff proposed to apply the class revenue decrease to energy rates since the majority of transmission and distribution costs are of a fixed nature.[156]

Pursuant to the terms of the Joint Proposal, SC Nos. 2-Primary, 3, 9 and 22 usage revenues are reduced by 20 percent, for each Rate Year, and the resulting change in revenue is reallocated to demand revenue on an equal percentage basis. Each class revenue increase is applied to demand rates only. This rate design more closely aligns how these costs are incurred and collected from customers and should be adopted.

b. Marginal Cost Study

Excelsior Jobs Program ("EJP")

The Company's Electric Demand Analysis and Cost of Service Panel testified that, in Cases 09-E-0428 and 13-E-0030, the Commission directed Con Edison to perform a full scope marginal cost of service ("MCOS") study to establish a basis for discounts under the Excelsior Jobs Program. This expanded methodology, established and employed by Con Edison, set the foundation for the MCOS study presented by Orange and Rockland in this proceeding.[157] Staff reviewed the Company's MCOS study for the Excelsior Jobs Program and found it to be consistent with past Commission practice. Accordingly, the Joint Proposal adopts the EJP rates proposed by the Company and reviewed by Staff. These rates are reasonable and should be adopted.

Marginal Electric Transmission and Distribution Costs

The Company's Electric Demand Analysis and Cost of Service Panel also testified that, in Cases 09-E-0428 and 13-E-0030, the Commission ordered Con Edison to perform a MCOS study to enable the evaluation of the costs and benefits of the energy efficiency programs.[158] Orange and Rockland used the expanded methodology ordered in the Con Edison proceedings to develop the MCOS study for the instant proceeding. In its pre-filed testimony, Staff noted that, in Case 14-E-0423, the Commission directed New York State utilities to design programs that reflect the marginal cost of avoided T&D investments, granular to the network or substation level.[159] Staff specifically

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156 Staff Electric Rates Panel, Initial, pp. 19-20. The revenue increase for these two classes was negative under Staff's proposed no change to overall rates.

157 Demand Analysis and Cost of Service Panel, Initial, p. 23.

158 Id.

159 Andruski, pp. 4-5.

noted that an MCOS study using substation-level marginal costs, rather than system average, would result in a higher level of avoided distribution capacity costs, and, thus, a more accurate benefit-cost ratio when evaluating REV-related solutions to system constraints.[160]

Staff's goal in addressing MCOS studies going forward is to identify cost causation at as granular a level as practical to ensure that general incentives are aligned with Commission policy objectives. Pursuant to this goal, the Joint Proposal requires the Company to initiate discussions with Staff and interested parties to identify an agreed upon methodology for future electric MCOS studies. The Joint Proposal's resolution of this issue, providing for discussion between the Company, Staff and other interested parties in advance of the next electric rate proceeding is an improvement over the litigated positions of Staff and the Company. The Company's current methodology is not adequate for evaluating future REV-like projects resulting from the REV proceeding. The Joint Proposal's requirement that Staff, the Company, and interested parties agree upon a methodology will strengthen future analysis, identifying avoided costs at the most forward looking and granular level possible. This will help to ensure that general incentives are aligned with the Commission's policy objectives. This requirement will also help identify marginal cost information that can be used to improve price signals which, in turn, can result in customers making more economically efficient marginal consumption decisions. Moreover, working with interested parties to arrive at a more granular and comprehensive marginal cost study will allow all involved to better identify the full potential value that can be obtained from the use of the distributed opportunities to address system constraints. For these reasons, the Joint Proposal's provisions regarding marginal electric transmission and distribution cost analysis are reasonable and should be adopted.

c. Street Light Replacements

In Case 11-E-0408, the Company amended Special Provision A of SC No. 4 to allow municipalities to replace more than 2% of their street lights at no cost to the customer in any given year as long as the sum of all municipality requests did not exceed 2% of the total number of SC No. 4 street lights. This amendment was to be in effect through June 30, 2015. In its initial testimony, Orange and Rockland proposed to extend this amended Special Provision for the new Rate Year,[161] and updated Special Provision A of SC No. 4 in the proposed electric tariff accordingly.

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[160] Id. at 10.

[161] Company Electric Rate Panel, Initial, p. 24.

The Joint Proposal continues this provision, allowing replacement of up to 2% of the street lights owned by the Company on a system-wide basis during each of RY1 and RY2 at no direct cost to participating municipalities. This will encourage interested municipalities to replace the existing street lights in their respective jurisdictions. This is a reasonable approach of balancing the needs of the municipalities and the needs of the ratepayers who would ultimately bear the cost of the replacements, and, thus, should be adopted.

d. LED Filing

In its initial pre-filed testimony, Orange and Rockland did not make any proposals regarding the current LED lighting options offered as part of the Company-owned street lighting tariff, choosing to maintain only the existing 70W and 100W LED options. In its pre-filed testimony, Staff supported the inclusion of additional, lower wattage LED options, with the understanding that such options will better meet the needs of municipal street lighting and consume less energy.[162] To that end, Staff recommended that the Company investigate the LED technology currently available and select appropriate lower wattage option(s) for inclusion in its street lighting tariff. Staff also proposed that the Company make a separate tariff filing incorporating additional LED street light options.[163] Pursuant to the terms of the Joint Proposal, the Company has agreed to make such a filing within six months of the date of the Commission's Order in these proceedings. The Company will also re-examine the costs included in its electric tariff for its existing LED street lights and include its findings, and proposed adjustments, as part of the tariff filing.

e. Energy Efficiency Tracking Mechanism

As previously noted, the Company's pre-filed testimony provided for the electric energy efficiency portfolio costs to be recovered through a surcharge. The Company, however, did not specifically propose a recovery mechanism for the gas energy efficiency portfolio costs. In its February 26, 2015 Order in the REV proceeding, the Commission stated that the 2016 electric energy efficiency programs for utility program administrators should be set at the 2015 EEPS program budget levels. In its June 19, 2015 Order,[164] the Commission approved the implementation of natural gas energy efficiency programs beginning in 2016 under the same framework as that

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162 Staff Energy Efficiency Panel, pp. 23-24.

163 Id. at 26.

164 Case 07-M-0548, Energy Efficiency Portfolio Standard, and Case 15-M-0252, In the Matter of Utility Energy Efficiency Programs, Order Authorizing Utility-Administered Gas Energy Efficiency Portfolios for Implementation Beginning January 1, 2016 (issued June 19, 2015).

established in the February REV Order for the implementation of electric energy efficiency programs; setting 2016 gas energy efficiency programs for utility program administrators at the 2015 EEPS program budget levels.

In its pre-filed testimony, Staff recommended that the Company's energy efficiency program costs be removed from the current SBC surcharge and be recovered through new energy efficiency tracking mechanisms ("EE tracker") designed to recover the costs of only the Company-run efficiency programs, with separate tracking mechanisms for electric and gas energy efficiency portfolios. The EE tracker, which will recover costs on a volumetric basis from all customers currently subject to the SBC, provides the flexibility needed to respond to the "Self-Direct Program"[165] provided for in the February 26, 2015 Order. In that Order, the Commission required Staff and the utilities, in consultation with large commercial and industrial customers, to develop guidance regarding self-directed energy efficiency programs. This guidance must be filed with the Secretary to the Commission by August 3, 2015. In its rebuttal testimony, the Company supported the use of the separate EE tracker mechanisms.[166]

In order to provide program transparency and allow the Company the flexibility to implement this program, which is in its formative stage at this time, the Joint Proposal allows recovery of the Company-run energy efficiency costs through separate electric and gas EE tracker mechanisms. The electric energy efficiency costs will be recovered through a component of the Company's existing Energy Cost Adjustment ("ECA") mechanism. Similarly, the gas costs will be recovered through a component of the Company's existing Monthly Gas Adjustment ("MGA"). This provision of the Joint Proposal is reasonable and should be adopted.

f. Other Tariff Changes

The Joint Proposal requires the Company to make a number of electric tariff changes proposed by the Company that were not disputed by Staff or other parties in pre-filed testimony.[167] These changes are all reasonable and should be adopted.

165 The Self-Direct Programs will allow large commercial and industrial customers who participate in the program to self-direct funds that would otherwise support the utilities' portfolio of energy efficiency programs toward the participating customers' unique suite of energy management investments. Utilities were directed to initiate self-directed energy efficiency efforts prior to January 1, 2017.

166 Company Energy Efficiency Panel, Rebuttal, p. 5.

167 Company Electric Rates Panel, Initial, pp. 21-25.

2. Gas

a. Embedded Cost of Service (ECOS) Study

The ECOS study in the Company's pre-filed testimony showed a $5.5 million imbalance in revenues between residential and commercial customers, with residential customers under-paying and commercial over-paying. This would suggest a need to reallocate revenues between residential and commercial customers. Staff made adjustments to the ECOS study because the existing breakdown of the service classifications was not granular enough to allocate distribution demand and customer costs separately. The Joint Proposal adopts Staff's position, which combined distribution demand and customer costs into one cost category, a more appropriate approach for an ECOS study with only two service classifications. The resulting revenue imbalance from Staff's adjusted ECOS study, adopted by this Joint Proposal, is reduced to $1.1 million. Given that Staff's approach was more reasonable with respect to the Company's gas service, this provision should be adopted.

b. Marginal Cost Study

The Company submitted an MCOS study to establish a basis for discounts under the EJP.[168] Staff reviewed the Company's MCOS study for the EJP and found it to be consistent with past Commission practice.[169] The Joint Proposal adopts the EJP rates proposed by the Company and reviewed by Staff. These rates are reasonable and should be adopted.

c. Interruptible Transportation Rates

Orange and Rockland's pre-filed testimony included a proposed base charge cap, the maximum delivery rate that the Company can charge to interruptible customers, of $0.05 per Ccf less than the lowest SC No. 6 delivery charge, which would be $0.2525 per CcF (SC No. 5 rate of $0.3025 - $0.05), an increase of $0.1805 from the current base charge cap of $0.072 per Ccf. The Company's testimony also included a change in rate block structure, with the first block rate, including only 100 Ccf, rather than the 1,000 Ccf currently included. The remaining 900 Ccf would shift to the second block. Reflecting the increase in per Ccf charges and the decrease in the amount of Ccf included in the first block, the charge for the first block would decrease from $150 to $122.[170]

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168 Company Gas Rate Panel, Initial, pp. 11-12.

169 Staff Gas Rates Panel, Initial, p. 30.

170 Company Gas Rates Panel, Initial, pp. 17-20.

In pre-filed testimony, Staff recognized the need for an increase to the base charge cap.[171] Without the flexibility to price interruptible rates more competitively with the rates of the other fueling options available, the Company does not have the ability to maximize this revenue if the market allows for an increase in rates. Firm customers see the benefit from this pricing flexibility, since the revenues the Company is able to realize from interruptible sales offset costs otherwise paid by firm customers.[172] Therefore, the Joint Proposal raises the base charge cap from 24% to 49% of the lowest SC No. 6 delivery rate in Rate Year 1, and to 70% of the lowest SC No. 6 delivery rate in Rate Year 2, which then continues at 70% until reassessed in the Company's next rate proceeding.

Staff agreed with the Company's method for determining the $122 first block charge, which was to include the minimum service costs plus a charge for the 100 Ccf that are included in this rate. However, the Joint Proposal recommends a lower rate increase than in the Company's original filing, with the rate for the first block 100 Ccf less than proposed by the Company, resulting in first block charges of $107, $117 and $118 in RY1, RY2 and RY3, respectively.

The interruptible rates in this Joint Proposal reflect a compromise between the parties and also reflect likely results for sales that take place in a competitive market environment. As such, they are reasonable and should be adopted.

d. Natural Gas Vehicle Service Classification Changes

In its pre-filed testimony, Orange and Rockland proposed to open a compressed natural gas (CNG) fueling station that would be available to non-Company fleets on an emergency basis.[173] Pursuant to its proposal, the Company would set rates monthly, at its discretion. In its pre-filed testimony, Staff proposed that the Company operate a private fueling station for its own vehicles. Further, Staff proposed that the Company gauge and promote interest among third parties who would own and operate fueling stations available to the public.[174] These third parties would buy gas from the Company at commercial (SC No. 6) rates, either as transportation or full-service commercial customers, and a third rate option would exist for those emergency cases where the public needed to use the Company's facility.[175]

[171] Staff Gas Rates Panel, Initial, p. 41.

[172] Rates are set with an assumed level of interruptible sales (see Section B.2.c), with any revenues in excess of that amount shared 80%/20% between customers and shareholders.

[173] Company Gas Rates Panel, Initial, p. 23.

[174] Staff Gas Network Enhancement Panel, pp. 30-31.

[175] Staff Gas Rates Panel, Initial, pp. 61-64.

The Joint Proposal incorporates aspects of both the Company's and Staff's proposals. Orange and Rockland will be allowed to operate a private facility, with a rate option for emergency situations, and will be required to work out a plan with Staff to gauge and promote interest among third parties to operate CNG fueling stations within the Orange and Rockland service territory. Further, third parties will have the option to take service as either a transportation or full-service sales customer as a CNG fueling station operator, at SC No. 6 delivery rates. The advantage to a cost-based rate is that it prevents the Company from undercutting the CNG fueling market, which it could do by setting rates slightly lower than other competing CNG fueling stations, thereby limiting competition and growth of the market. The Joint Proposal also has an additional rate for mobile CNG fueling customers (e.g., customers who operate business which transport and dispense CNG), which allows the Company to negotiate rates. The negotiated rate is necessary because a mobile CNG fueling company has the ability to fill its CNG fueling units in different locations, and could buy fuel from other utilities and serve customers within Orange and Rockland's service territory. The changes to the Natural Gas Vehicle Service Classification are reasonable, beneficial to ratepayers, promote the development of a CNG fueling market, and, thus, should be adopted.

e. Energy Efficiency Tracking Mechanism

See Section H.1.e.

f. Reliability Surcharge Mechanism

In pre-filed testimony, Staff proposed a reliability surcharge mechanism (RSM) to allow the Company to recover a return on its investment, depreciation expense and property taxes associated with the prudent incremental replacement of LPP, as compared to the replacement amount and revenue requirement allowance included in base rates.[176] The Joint Proposal effectuates Staff's recommendation. The RSM would provide improved cash flow and timely financial recovery for the Company's investments in LPP replacement beyond the increased replacement rates set in this case. It would also serve the interests of customers, since the Company's increase in LPP replacement will result in a safer and more reliable distribution system. To protect customers from unreasonable bill impacts, Staff will review the capital work for prudency each year, and there is a cap on the total amount allowed to be recovered through the surcharge.

Included as Attachment C to this Statement in Support is additional language that should be included in Appendix 23 to the Joint Proposal. The net plant level agreed to in the Joint Proposal

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176 Staff Gas Infrastructure and Operation Panel, pp. 45-48.

includes expected capital expenditures on LPP replacement. Accordingly, it is imperative that the interplay between the net plant reconciliation and the RSM be clear to avoid the possibility of double recovery of the revenue requirement associated with LPP incremental to the level assumed in rates. Regrettably, Appendix 23 to the Joint Proposal, as filed on June 5, 2015, was not explicitly clear. As such, Staff and the Company drafted additional language to insert before the final paragraph on page 2 of Appendix 23, which clarifies the interplay between the net plant reconciliation and the RSM. The language was shared with all the parties on June 23, 2015, and, as of the filing of this Statement in Support, no party objected to its inclusion. This mechanism is in the best interest of both customers and the Company, and, thus, should be adopted.

g. Balancing Provisions

The tightening of the tolerance bands for customers that transport gas to the State's utility service territories has been a statewide effort in recent years. In pre-filed testimony, the Company proposed,[177] and Staff accepted,[178] a modification to the Company's existing tier structure when imbalances are cashed out. The new levels, as agreed to in the Joint Proposal, will bring Orange and Rockland in line with other gas utilities in New York State, providing greater state-wide consistency for these types of customers.

Additionally, in pre-filed testimony the Company proposed,[179] and Staff accepted,[180] a change to the reference points used to calculate imbalances. The new reference points are a better representative of market prices for gas in Orange and Rockland's service territory, and will be consistent with the reference points used by other utilities in the State. Moreover, the new points are common trading points for natural gas and are published on a daily basis, leading to greater transparency. These changes satisfy the concerns of marketers that participated in the rate proceeding and should help to limit the level of over and under-deliveries that Orange and Rockland will need to manage for the marketers. Accordingly, these changes are reasonable and should be adopted.

177 Carnavos, Initial, pp. 29-30.

178 Staff Gas Policy and Supply Panel, pp. 20, 22; Exhibit__(GPSP-2).

179 Carnavos, Initial, pp. 29-30.

180 Staff Gas Policy and Supply Panel, p. 22; Exhibit__(GPSP-2).

h. Other Tariff Changes

Orange and Rockland proposed to remove SC No. 3 in its pre-filed testimony[181] for two reasons: 1) there are not currently any customers in SC No. 3; and 2) the service offered through the supplemental sales option in SC No. 8 would be identical to SC No. 3. The Company proposed to remove SC No. 10 because it currently does not have any customers and has been closed to customers since October 1, 2009.[182] Staff reviewed these proposals and found them reasonable. Therefore, the Joint Proposal incorporates the Company's position that SC Nos. 3 and 10 should be eliminated from the Company's tariff.[183]

Orange and Rockland also proposed to add language to its tariff allowing that new customers, taking service under SC No. 8 Interruptible Transportation, previously having taken firm service for less than five years, be required, at the Company discretion, to pay all or a portion of the facility costs incurred by the Company when initially providing firm service.[184] Staff reviewed this request and found it to be reasonable, since the accepted payback period of facility costs for firm customers is five years, and the Company should collect those costs fully from any firm service customers, even if they switch to interruptible service. Therefore, the Company's position, included in the Joint Proposal,[185] is reasonable and should be approved.

Winter Bundled Sales service ("WBS") changes discussed by the Company[186] focused on the identification of the pricing mechanism being moved from the tariff to the GTOP. Staff agreed to the change,[187] as well as suggested other pricing changes to the program, such as the elimination of the standard service option, which have since been incorporated in the Joint Proposal.[188] These changes have been made to provide consistency in how full service and transportation customers are charged for similar service. The remaining housekeeping tariff changes were reviewed by Staff, are reasonable, and should be adopted.

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181 Company Gas Rate Panel, Initial, pp. 20-21.

182 Id. at 25.

183 Joint Proposal §H.2.H.5, p. 49.

184 Company Gas Rate Panel, Initial, p. 20.

185 Joint Proposal §§H.2.H.6 & 7, p. 49.

186 Carnavos, Initial, pp. 36-38.

187 Staff Gas Policy and Supply Panel, pp. 16-19.

188 Joint Proposal §§H.2.H. 9, 10, 11, 12 & 13, pp. 49-50.

I. Performance Metrics

1. Electric Reliability Performance Mechanism

This provision and Appendix 15 to the Joint Proposal set forth the parameters of the Electric Reliability Performance Mechanism ("ERPM") that the Signatory Parties propose to continue for the term of the Electric Rate Plan and thereafter until changed by the Commission. This same ERPM is currently in effect, having been adopted in the 2012 Electric Rate Plan. Appendix 15 to the Joint Proposal contains the specific thresholds and exclusions for the Customer Average Interruption Duration Index ("CAIDI") and System Average Interruption Frequency Index ("SAIFI"), the two components of the mechanism. In this case, no party recommended any modifications to the thresholds or potential negative revenue adjustments applicable under either CAIDI or SAIFI. Orange and Rockland has been meeting the performance targets, which shows that the Company is providing reliable service to its customers, the goal of the mechanism. Continuing the Electric Reliability Performance Mechanism reflects the importance of ensuring that the Company continues to provide reliable service to its customers and, thus, the ERPM should be adopted.

2. Gas Safety Performance Mechanism

The gas safety performance metrics in the Joint Proposal represent a favorable outcome based on both Staff's testimony and gas safety performance metrics established in rate plans for other gas utilities in the State. The metrics and the basis points associated therewith are consistent with the rate plans of other gas utilities in the State; however, the Joint Proposal does contain some unique metric parameters to reflect the specific nature of Orange and Rockland's service territory and system.

a. Leak Backlog

Under the rate plan established in Case 08-G-1398, Orange and Rockland must be below a total leak backlog of 850 for each calendar year end and a "repairable" leak backlog of 18 for each calendar year end. Staff recommended a total backlog target of 250 leaks for the end of calendar year (CY) 2016, 200 leaks for the end of CY 2017, and 150 leaks for the end of CY 2018.[189] The Company recommended an end to the targets, or moving the deadline to another time in the year as the Company contended that the higher occurrence of leaks in December created a manpower issue to meet the target.

189 Staff Gas Safety Panel, p. 24.

The metric in the Joint Proposal acknowledges the manpower issue by allowing the Company to meet the requirements of this metric so long as its backlog is below the target on one of the last three working days in the calendar year. The Joint Proposal sets the targets for the end of CY 2016, 2017 and 2018 at 250, 225 and 200, respectively, maintaining Staff's goal of continuous improvement with lower targets each succeeding year. In addition to the overall leak backlog target, there is an end of CY target for "repairable" leaks of 20. This ensures that the Company's current good performance for this measure continues. The Joint Proposal sets the potential annual negative revenue adjustments for failure to meet the targets at a total of 12 basis points instead of the Staff recommended and current 16 basis points. This brings O&R into alignment with other gas utilities.[190]

b. Leak Prone Pipe

Pursuant to the 2009 Gas Rate Plan, Orange and Rockland was required to replace 90,000 feet (approximately 17 miles) per calendar year and 330,000 feet (approximately 62.5 miles) over the three year rate plan. Since the end of that rate plan, in 2012, the Company has replaced a minimum of 90,000 feet (approximately 17 miles) per calendar year. In its testimony, Staff recommended that Orange and Rockland replace 115,000 feet (approximately 21.8 miles), 120,000 feet (approximately 22.7 miles), and 125,000 feet (approximately 23.7 miles) of LPP main in CY 2016, 2017, and 2018, respectively.[191] Within this target, Staff recommended that a sub-target of 2.5 miles of cast iron main be established.[192] The Company proposed that it replace 100,000 feet each year, of which 10,000 would be dedicated to low pressure areas.[193] Further, the Company proposed a separate program for replacing 500 bare steel services each year.[194] Staff did not believe separate or targeted programs for low pressure areas or bare steel services, apart from the LPP program, were necessary.[195]

The Joint Proposal establishes funding for the removal of 21 miles, 22 miles, and 23 miles of LPP in RY1, RY2, and RY3, respectively. The Joint Proposal also provides for a negative revenue

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190 Case 12-G-0202, Niagara Mohawk Power Corporation d/b/a National grid – Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013); Case 12-G-0544, The Brooklyn Union Gas Company d/b/a National Grid NY - Rates, Order Adopting Terms of a Joint Proposal (issued June 14, 2013); 2014 Con Edison Rate Order; Case 13-G-0136, National Fuel Gas Distribution Corporation – Rates, Order Adopting Terms of Joint Proposal and Establishing Rate Plan (issued May 8, 2014).

191 Staff Gas Safety Panel, p. 12.

192 Staff Gas Safety Panel, p. 16.

193 Hehir, Initial, p. 5.

194 Id. at 5-8.

195 Staff Gas Safety Panel, pp. 14-15.

adjustment if the Company fails to replace at least the total 66 miles before the end of CY 2018. Negative revenue adjustments are applicable in each year as well, however, rather than impose a negative revenue adjustment should the Company fail to meet the funded target, negative revenue adjustments are only imposed if the Company fails to replace at least 20 miles of LPP main in each calendar year. This ensures that, over the course of the Gas Rate Plan, the Company replaces at least 66 miles, while providing the Company with some leeway in each individual year, to recognize that real world circumstances may impact the Company's work schedule. There Joint Proposal provides for a cast iron sub-target, which requires Orange and Rockland to replace at least 2.0 miles of cast iron main in CY 2016 and CY 2017, and 7.5 miles total for CY 2016 through CY 2018. The Signatory Parties recommend a negative revenue adjustment at a total of eight basis points, instead of the Staff recommended and current six basis points. This brings Orange and Rockland into alignment with other gas utilities.[196]

Reporting requirements, while sufficient to meet Staff's needs in light of the entire Joint Proposal, are less than what Staff recommended in testimony.[197] The Joint Proposal requires the Company to provide an annual list of the top five percent of LPP main segments remaining (approximately 14 miles) at the start of each year. With this list, Orange and Rockland is required to identify and explain why any of these segments are not scheduled to be replaced during that. Further, the Company is required to identify any segments that had been scheduled to be replaced during the previous year, but were not. This relaxed requirement reflects Staff's acknowledgement that opportunities, such as coordination with municipalities, may impact LPP main replacement, as opposed to purely basing LPP main replacement on risk ranking.

The Joint Proposal also includes Staff's proposed incentive for a positive revenue adjustment for each mile of LPP main replaced in each calendar year in addition to what was provided for in rates.[198] Whereas in testimony, Staff had proposed one basis point per incremental mile, with a five basis point cap, the Joint Proposal recommends a two basis point positive revenue adjustment per whole incremental mile, up to a 10 basis point cap. If Orange and Rockland does replace more LPP

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[196] Case 12-G-0202, Niagara Mohawk Power Corporation d/b/a National grid – Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013); Case 12-G-0544, The Brooklyn Union Gas Company d/b/a National Grid NY - Rates, Order Adopting Terms of a Joint Proposal (issued June 14, 2013); 2014 Con Edison Rate Order; Case 13-G-0136, National Fuel Gas Distribution Corporation – Rates, Order Adopting Terms of Joint Proposal and Establishing Rate Plan (issued May 8, 2014).

[197] Staff Gas Safety Panel, pp. 19-20.

[198] Staff Gas Safety Panel, pp. 18-19.

main than provided for in rates, it can recover cumulative incremental revenue requirement through the RSM, discussed in Section H.2.f of this Statement. These provisions provide the incentive for accelerated LPP main replacement and aligns with the Commission's goal as evidenced by Commission proceedings in Case 15-G-0151.[199]

c. Emergency Response Times

Staff recommended that the gas safety performance metric for Emergency Response Times be continued from the 2009 Gas Rate Plan.[200] The Joint Proposal includes those performance targets for Emergency Response Times, with a different associated negative revenue adjustment. The Joint Proposal sets the negative revenue adjustment at a total of 12 basis points, rather than the Staff recommended, and current, 10 basis points to bring Orange and Rockland into alignment with other gas utilities.[201]

d. Safety Violations Metric

As a new metric for Orange and Rockland, Staff recommended that each occurrence of a High Risk (HR) safety violation and each occurrence of an Other Risk (OR) safety violation[202] found and cited in either the annual field audit or record audit letter be assessed a negative revenue adjustment of one basis point and one-third basis point, respectively with no cap.[203] In its pre-filed rebuttal, the Company opposed the safety violations metric for its lack of provisions allowing the Company to refute or explain violations under a formal proceeding, to consider factors and severity of violations, to recognize scope and breadth of the code requirements, and to acknowledge the Company's previous responses to non-compliance issues.[204]

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199 Case 15-G-0151, Proceeding on Motion of the Commission to Consider Implementation of a Recovery Mechanism to Support the Accelerated Replacement of Infrastructure on the Natural Gas System, Order Instituting Proceeding for a Recovery Mechanism to Accelerate the Replacement of Leak Prone Pipe (issued April 17, 2015).

200 Staff Gas Safety Panel, pp. 43-44.

201 Case 12-G-0202, Niagara Mohawk Power Corporation d/b/a National grid – Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013); Case 12-G-0544, The Brooklyn Union Gas Company d/b/a National Grid NY - Rates, Order Adopting Terms of a Joint Proposal (issued June 14, 2013); 2014 Con Edison Rate Order; Case 13-G-0136, National Fuel Gas Distribution Corporation – Rates, Order Adopting Terms of Joint Proposal and Establishing Rate Plan (issued May 8, 2014).

202 A utility may have multiple "occurrences" of the same safety violation. Under this metric, each occurrence is treated as a separate violation and can lead to a negative revenue adjustment.

203 Staff Gas Safety Panel, pp. 48-49.

204 Hehir, Rebuttal, pp. 31-34.

As described in Appendix 16, the Signatory Parties recommend the creation of a metric based upon violations identified and included in Staff field and record audit letters.[205] The metric in the Joint Proposal sets caps for HR and OR safety violations subject to a negative revenue adjustments per year. The caps increase each year. Thus, for the field and record audits of CY 2016, the cap on negative revenue adjustments for HR safety violations is 35 basis points. This increases to 55 basis points in for the audit of CY 2017 and 75 basis points for the audit of CY2018. For OR violations, the cap for the audit of CY 2016 is 15 basis points. The cap increases to 20 basis points for the audit of CY 2017, and 25 basis points for the audit of 2018.

In addition, the amount of the negative revenue adjustment per violation has two tiers based on the number of violations identified in each year, with different negative revenue adjustments specified for each violation below and above the threshold stated for each year. The Thresholds are 35, 30, and 25 violations for CY 2016, CY 2017 and CY 2018, respectively. For CY 2016, for each HR violation up to and including the threshold, the Company would incur a negative revenue adjustment of one-quarter basis point, and for each HR violation beyond the threshold, the Company would incur a negative revenue adjustment of one half basis point. For CY 2017 and 2018 for each HR violation up to and including the threshold, the negative revenue adjustment would be one half basis point, and any additional HR violations would result in a negative revenue adjustment of one basis point. For OR violations, each violation up to and including the threshold, would result in a negative revenue adjustment of one-ninth basis point and each violation beyond these threshold would result in a negative revenue adjustment of one-third basis point.

Consistent with the similar metrics for other gas utilities, as this is the first instance in which Orange and Rockland will be subject to this metric, the negative revenue adjustment levels, thresholds and caps are being phased in. The metric in this Joint Proposal is unique in that it provides separate caps for the negative revenue adjustments for HR and OR violations rather than one overall cap. This evolution reflects that HR and OR violations are not given equal weight. Like other similar metrics, this one provides different basis point negative revenue adjustments for HR and OR violations. The separate caps for HR and OR violations merely continues this logic. Given the importance of the Company's commitment to gas safety, these metrics are reasonable and should be adopted.

[205] Consistent with past practice, unless there is an extraordinary event that the Commission pursues in a separate proceeding, Staff's audits include findings from its audit plan for the year, review of satisfactory compliance with past findings, and other violations identified during the normal course of business.

e. Damage Prevention

Under the 2009 Gas Rate Plan, Orange and Rockland must meet damage prevention targets of 3.75, 0.45 and 0.25 per 1,000 call tickets for overall damages, damages due to mismark and damages due to the Company or its contractors, respectively. In testimony, Staff recommended damage prevention targets at the state average of 1.7, 0.37 and 0.08 per 1,000 call tickets for overall damages, damages due to mismark and damages due to the Company or its contractors, respectively.[206] The Company proposed no changes other than to exclude damages subject to penalties from Notices of Probable Violations citations.

The Joint Proposal establishes targets of 2.75, 2.50 and 2.25 per 1,000 call tickets for overall damages for CY 2016, CY 2017, and CY 2018, respectively. The Joint Proposal establishes targets of .40, .35, and .30 per 1,000 call tickets for damages due to mismark for CY 2016, CY 2017, and CY 2018, respectively. Finally, the Joint Proposal establishes targets of .45, .40, and .35 per 1,000 call tickets for damages due to the Company or its contractors, for CY 2016, CY 2017, and CY 2018, respectively. The negative revenue adjustment is set at a total of 18 basis points, which aligns this metric for Orange and Rockland with similar metrics for other gas utilities.[207]

As noted in Staff's testimony, Orange and Rockland's performance in this metric needs improvement. However, simply setting the target at the statewide average would require the Company to perform significantly better than it has ever performed. The targets set in the Joint Proposal require the Company to initially perform at a level it has achieved occasionally, with the target being reduced toward levels it has yet to achieve. Thus, the metric acknowledges the variability in Company's current performance, while maintaining Staff's goal of continuous improvement with lower targets each succeeding year.

3. Customer Service Performance Mechanism (Electric and Gas)

A Customer Service Performance Incentive Mechanism ("CSPIM") is 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 its initial testimony, Orange and Rockland proposed no changes to its CSPIM. Staff, however, proposed several modifications

[206] Staff Gas Safety Panel, p. 33.

[207] Case 12-G-0202, Niagara Mohawk Power Corporation d/b/a National grid – Gas Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013); Case 12-G-0544, The Brooklyn Union Gas Company d/b/a National Grid NY - Rates, Order Adopting Terms of a Joint Proposal (issued June 14, 2013); 2014 Con Edison Rate Order; Case 13-G-0136, National Fuel Gas Distribution Corporation – Rates, Order Adopting Terms of Joint Proposal and Establishing Rate Plan (issued May 8, 2014).

intended to ensure that the CSPIM remains relevant to the current operating environment and poses an effective deterrent against poor performance. Specifically, Staff recommended tightening the targets for PSC Complaint Rate and Customer Contact Satisfaction Surveys, and discontinuing the Adjusted Bills measure. Staff also recommended the additional measures of Telephone Answer Response and Residential Customer Terminations and Bad Debt. The Telephone Answer Response metric is a service level measure designed to calculate the average number of calls answered within a specified amount of time, compared to the total number of calls received. Staff proposed this new metric because the Company's average call answer rate had declined and its performance lags far below its peers. The latter is a measure of the number of residential service terminations for non-payment and a corollary measure of the amount of bad debt from residential accounts. Overall, Staff proposed an increasing to the amount at risk for negative revenue adjustments in the event of unsatisfactory performance, and a positive incentive if the Company is able to reduce customer terminations and bad debt.[208] UIU's initial testimony also proposed tightened targets for the PSC Complaint Rate metric, the elimination of the Adjusted Bills metric and the addition of a Call Answer Rate metric.[209]

In rebuttal testimony, Company witness Braunfotel opposed tightening the Company's Complaint Rate target, the addition of a Call Answer Rate metric and adding in a measure for the number of residential service termination for non-payment and a corollary measure of bad debt from residential accounts.[210]

The Joint Proposal essentially adopts the CSPIM proposed by Staff, with some slight adjustments to targets and amounts at risk. No negative revenue adjustments apply to the Residential Terminations/Bad Debt measure, but the Company can enhance its earnings through a positive revenue adjustment by achieving reductions in either or both of these measures. Notably, however, no incentive award is available if either one measure increases above its five-year average level. This measure is similar to one recently adopted by the Commission for Central Hudson.[211]

The revised CSPIM as proposed in the Joint Proposal benefits all customers as it incents the Company to provide acceptable customer service, and to work with residential customers to avoid

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208 As Staff proposed it, this metric would have been symmetrical, while good performance would lead to a positive revenue adjustment, as with the other metrics, poor performance would lead to a negative revenue adjustment.

209 Staff Consumer Services Panel, pp. 21-33; Collar, Initial, pp. 7-12.

210 Braunfotel, Rebuttal, pp 2-17.

211 2015 Central Hudson Rate Order. The Central Hudson measure, however, is limited to the number of residential service terminations and does not include bad debt.

terminations for non-payment while decreasing residential bad debt. The CSPIM is reasonable and, for the reasons discussed, should be adopted.

J. Climate Change

The Center for Climate Systems Research of Columbia University is undertaking a study for Orange and Rockland's sister utility, Con Edison. Once the study is completed, or as components are completed, the Joint Proposal commits the Sabin Center to provide the study to Orange and Rockland. In addition, the Joint Proposal commits Orange and Rockland to review the study and evaluate whether the results, or components of the results of the study have implications for Orange and Rockland's capital expenditure planning or operational procedures. Further, Orange and Rockland commits to providing the Sabin Center and other interested parties with a written report of its evaluation of the study within 120 days of the end of RY2. This provision encourages the Company to use available resources to consider how climate change may, or should, impact the Company's operations. As such, it is reasonable and should be approved.

K. Customer Service Issues

1. Customer Outreach and Education

a. Customer Outreach and Education

In its testimony, Orange and Rockland proposed an outreach and education budget of $338,000.[212] The Company requested an additional $75,000 for outreach related to natural gas safety, and an additional $47,000 for natural gas conversion. No parties opposed these budget requests.

The Joint Proposal states that Orange and Rockland will be provided with an adequate annual budget of $231,000 for electric and $229,000 for gas for outreach and education, including $75,000 for natural gas safety and $47,000 for natural gas conversion. Orange and Rockland will continue to file an annual outreach and education plan, and develop and implement outreach and education activities, programs and materials that will aid its customers in understanding their rights and responsibilities as utility customers, as well as provide important safety information.

A robust outreach and education program is in the public interest as it provides vehicles to disseminate safety facts and tips, and other important and timely information. Gas safety and gas expansion are issues of critical importance to the Commission, for which additional outreach is justified. These terms of the Joint Proposal are reasonable and should be adopted.

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[212] Exhibit__(CSP-1), p. 2.

b. Natural Gas Network Enhancement

The Joint Proposal provides for increased natural gas-related outreach and education to customers within the service territory through multiple avenues of communication, as proposed by the Company.[213] The Joint Proposal also requires customer inquiry tracking whereby the Company will track inquiries and requests by prospective natural gas customers. This will provide valuable data that will allow the Company to better plan its gas network enhancement for increasing the availability of natural gas service to new customers. This is beneficial because the additional resources will help to educate customers and potential customers about the costs and environmental benefits associated with the use of natural gas compared to alternate fuels such as oil or propane. In addition, the customer education should also lead to adding new customers on Orange and Rockland's system.

2. Mandatory Day Ahead Hourly Pricing

In May 2013, in compliance with the Commission's order in Case 10-E-0362,[214] the mandatory day ahead hourly pricing ("MDAHP") threshold was lowered to 300 kW from its previous level of 500 kW. In its pre-filed testimony in these proceedings, Staff proposed that the demand threshold for MDAHP be further lowered to 100 kW if the Commission were to approve Orange and Rockland's AMI implementation plan.[215] Staff stated that the metering and communications costs appeared to be significantly lower for an AMI system than for a traditional MDAHP meter with cellular or land line communications, thereby making MDAHP more cost effective for customers with demands between 100 kW and 300 kW.[216] Given these potential savings, Staff's recommended expansion of MDAHP was contingent upon the Commission's approval of the Company's proposed AMI project.

Orange and Rockland and other parties disagreed with Staff's recommendation to lower the MDAHP threshold in this proceeding. The Company noted in its pre-filed rebuttal testimony that Staff tied the decreased threshold to the Company's AMI project; however, that project would not be completed for approximately five years and the first phase of the project would only encompass

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[213] Scerbo, Initial, p. 2.

[214] Case 10-E-0362, Orange and Rockland Utilities, Inc. – Electric Rates, Order Establishing Rates for Electric Service (issued June 17, 2011).

[215] Graves, p. 4.

[216] Graves, p. 8.

the Rockland County portion of the Company's service territory.[217] The Company asserted that focusing on the Rockland County customers with demands between 100 kW and 300 kW would result in cost increases and delays of the AMI project.[218] Moreover, 40 percent of the Company's customers with demands between 100 kW and 300 kW are located outside of Rockland County, which would further complicate the matter given that these customers are in the second phase of the AMI project, which would not begin for at least five years.[219] Orange and Rockland also noted that many of these customers are schools, libraries, municipal accounts and small businesses that may not be able to shift energy consuming activities to lower price periods.[220]

In recognition of the concerns raised by Orange and Rockland and other parties, the Joint Proposal provides that, during the term of the Electric Rate Plan established in these proceedings, the threshold for MDAHP will remain at 300 kW. During the first year of the Electric Rate Plan, the Company will complete a study on the impacts of lowering the threshold to 100 kW, or another level between 300 kW and 100 kW. Specifically, the study will review the types of customers with demands between 100 kW and 300 kW and their usage profiles. This will give the parties more information to allow for a more complete examination of the impacts of lowering the threshold in future rate proceedings.

3. Same-Day Electric Service Reconnections

UIU proposed that Orange and Rockland commit to attempt 100% same day electric service reconnection for customers whose service has been disconnected for non-payment at the meter and who have been become eligible for reconnection.[221] On rebuttal, Orange and Rockland opposed this proposal, stating that compliance with this requirement would require four additional employees, at a cost of $557,000.[222] As a compromise, the Joint Proposal requires the Company to exercise reasonable efforts in attempting 100% same-day electric service reconnection for residential electric customers whose service was disconnected for non-payment at the meter and who become eligible for reconnection (*e.g.*, by making payment) by 5:00 p.m. Monday-Friday, excluding Company holidays. The Company will file quarterly reports indicating the number of residential electric

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[217] Company AMI Panel, Rebuttal, p. 12.

[218] Id.

[219] Id. at 12-13.

[220] Id. at 13.

[221] Collar, Initial, p.21-23.

[222] Company AMI Panel, Rebuttal, p. 14-15.

customer reconnection work orders issued by 5:00 p.m. Monday-Friday, the number of same-day reconnections, attempts made to such customers, and the number of completed same-day reconnections.

This provision provides a valuable public benefit for customers who satisfy their unpaid bill obligations. Moreover, it is similar to programs approved by the Commission in the 2014 Con Edison Rate Order, and more recently in the 2015 Central Hudson Rate Order.

L. Electric and Gas Low Income Assistance Programs

1. Monthly Bill Credit/Reconnection Fee Waiver/EmPower Program/Reporting Requirements

The Company's current Low Income Assistance Program provides qualifying customers with a monthly bill discount. For electric heating customers, the monthly discount is $17.40, while non-heating electric customers receive a discount in the amount of $9.00. For a gas customer (both heating and non-heating), the monthly discount is $11.63. In its pre-filed testimony,[223] Orange and Rockland proposed to continue its existing low income assistance programs with adjustments to its electric and gas budgets to reflect recent experience. Specifically, the Company proposed to reduce the electric low income assistance program budget to $1.3 million from the current budget of $1.8 million. Similarly, the Company proposed to increase its gas low income assistance program budget to $1.4 million from the current level of $878,000. The proposed adjustments were due to under spending in the electric program while simultaneously exceeding the budget for actual gas expenditures in recent years.

Staff proposed that Orange and Rockland provide a $9.60 increase, or a total monthly credit of $27.00, to electric heating customers. For electric non-heating customers, Staff proposed a $9.00 increase, or a total monthly credit of $18.00. For gas heating customers, Staff proposed a discount level increase of $5.37 for a total monthly credit of $17.00. Staff also recommended a decrease to the discount level for gas non-heating customers of $5.63 to a total monthly credit of $6.00.[224]

In its testimony, UIU proposed to shift from a fixed discount (or dollar amount) approach to a standard percentage discount which would provide eligible customers a 10% discount on their total monthly bill.[225] On rebuttal, UIU supported Staff's proposed discounts.

[223] Cigliano, Initial, pp. 3–5.

[224] Staff Consumer Services Panel, p. 13.

[225] Collar, Initial, pp. 15–16.

The Joint Proposal adopts Staff's low income assistance program proposal. The discounts will be held constant during the terms of the rate plans. The Joint Proposal will also continue Orange and Rockland's existing programs for reconnection fee waiver and referrals to EmPower or any successor program for low income customers. The Joint Proposal further calls for Staff to make a good faith effort to encourage NYSERDA to promote the service in the Company's territory. For statistical analysis purposes and to gain an overall effectiveness of the proposed low income assistance program, the Joint Proposal provides for an expanded reporting requirement of six identifiable aspects of the program.

Assisting low income customers to pay their bills benefits all customers in all service classes as these programs help keep uncollectible expenses, credit and collection costs, and diversion of revenue from arrears to reconnection fees lower. Additionally, assistance to those who have difficulty in paying their utility bills without having to choose between alternative necessities (i.e. food and shelter) provides for a healthier and safer community. For all of these reasons, the Joint Proposals provisions relating to the low income assistance programs should be adopted.

2. Low Income Assistance Proceeding

The Joint Proposal acknowledges that Case 14-M-0565 is an ongoing proceeding which may impact, in part or full, the Company's low income programs.[226] This provision allows for the adoption of any Commission requirements resulting from the Low Income Assistance Proceeding to take precedence, and for parties to reserve their rights in connection with that proceeding.

M. Collaboratives

The Joint Proposal recommends four collaboratives through which Orange and Rockland will engage with Staff and other interested parties on particular issues. Some of these collaboratives have already had initial meetings as of the date of this Statement.

1. AMI Collaborative

The AMI Collaborative is intended to provide all interested parties with input as Orange and Rockland develops its AMI Business Plan for filing with the Commission at the same time as the Company files its DSIP. The first meeting of this collaborative occurred on June 24, 2015. This collaborative is discussed in more detail in Section D.1.c., above.

[226] Case 14-M-0565, Proceeding on Motion of the Commission to Examine Programs to Address Energy Affordability for Low Income Utility Customers, Order Instituting Proceeding (issued January 9, 2015).

2. Pomona Collaborative

The Pomona Collaborative is discussed in detail in Section G.1, above. The initial meeting of this collaborative occurred on May 26, 2015.

3. REV Demonstration Project Outreach

The REV Demonstration Project Outreach proposal is discussed in detail in Section G.2, above. The initial meeting is expected to occur in October of 2015.

4. Ongoing Marketer Collaborative

This collaborative is intended to facilitate the resolution of operational issues between Orange and Rockland and gas marketers (energy services companies) operating in its service territory. Rather than institute a new collaborative, issues relevant to the Orange and Rockland service territory will be discussed within an existing Marketer Collaborative between Orange and Rockland's sister utility, Con Edison, and gas marketers. As Con Edison and Orange and Rockland use some of the same staff and systems, this will facilitate the resolution of operational issues without the duplication of existing efforts.

N. Miscellaneous Provisions

The Joint Proposal contains a number of provisions that provide general terms for the agreement, or continue certain aspects of Orange and Rockland's current rate plans without modification. These provisions, contained in section N, Miscellaneous 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.[227] 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 the Company, Staff, the UIU, DOD/FEA, PACE, RESA and SABIN have signed on to the Joint Proposal testifies to the proper balancing of the interests of ratepayers and Orange and Rockland contained in its terms. The Joint Proposal significantly continues and advances the

[227] See 2015 Central Hudson Rate Order.

Commission's goals and policies, while minimizing the potential economic impact of the recommended rate increases on ratepayers. Orange and Rockland, 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
Lindsey N. Overton
Staff Counsels

Dated: June 26, 2015
Albany, New York

Orange and Rockland Utilities, Inc
Electric Revenue Requirement Reconciliation
Case 14-E-0493
Joint Proposal VS Existing Rates
($000)

JP RY1 Revenue Requirement	$9,326
Explanation of Rate Increase:	
Net Sales Revenue	$2,124
Other Operating Revenues	(2,600)
Gain on Disposition of Utility Plants	(108)
Amortization of Regulatory Deferrals:	
Pension/OPEBs	(8,449)
Carrying Charges on Deferred Tax Liabilities	(3,257)
MGP & other Environmental Costs	(2,800)
Interest on Pollution Control Debt	(1,661)
NYSIT Rate Change	(748)
Stray Voltage	(475)
Amort of Storm Reserve	5,078
Property Taxes	2,647
All Other	(85)
	(9,751)
Operations & Maintenance Expense	
Company Labor	3,313
Building Services	2,875
Manhour & Transportation	2,408
Shared Service	1,197
Telephone	1,187
R&D and Low Income	866
Employee Health Insurance and Other Benefits	561
Uncollectible	531
Customer Program (surcharge netted in sales revenues	387
Pension/OPEB	(2,641)
All Other	808
Total O&M Expense	11,493
Depreciation Expense	3,334
Taxes Other Than Income Taxes	
Property Taxes	8,238
Payroll and Other	447
	8,685
Income Taxes - FIT	
Flow Through Deductions	518
Rate Base	
Net Plant	11,282
Working Capital	596
EBCAP Adjustment	(7,405)
Accumulated Deferred FIT (Bonus Depreciation, etc.)	(4,123)
All Other Rate Base items	99
Total Rate Base	448
Rate of Return	(4,816)
JP RY1 Revenue Requirement	$9,326

Orange & Rockland Utilities, Inc.
Two-Year Electric Revenue Requirement
($ millions)

	Twelve Months Ending October 31	
	2016	2017
Base Rate Increase - RY1	$ 9.3	
Operating Revenues		
Net Change - Revenues		$ (8.4)
- Change in Revenue Taxes		0.1
- Change in SBC / RPS		4.4
- Purchased Power		4.0
Net Operating Revenues		0.2
Other Operating Revenues		0.1
Amortization of Regulatory Deferrals		(0.9)
Net Revenues		$ (0.6)
Operating Expenses		
Operation & Maintenance Expense (excl. Fuel)		
- Labor & General Escalations		2.7
- Pension and OPEBs		(2.1)
- Uncollectibles		-
Depreciation & Amortization		2.7
Taxes Other - excl. Revenue Taxes		2.1
Federal Income Taxes		(1.0)
Pre Tax Return and Rate Base		3.8
Subtotal		$ 8.2
Net Rate Change	$ -	$ 8.8

Orange and Rockland Utilities, Inc
Gas Revenue Requirement Reconciliation
Case 14-G-0494
Joint Proposal VS Existing Rates
($000)

JP RY1 Revenue Requirement	$27,525
Explanation of Rate Increase:	
Net Sales Revenue	($2,855)
Other Operating Revenues	(303)
Amortization of Regulatory Deferrals:	
Interest on Pollution Control Debt	(3,154)
Carrying Charges on Deferred Tax Liabilities	(3,118)
Pension/OPEBs	(712)
MGP & other Environmental Costs	(587)
Property Taxes	7,230
All Other	(30)
	(371)
Operations & Maintenance Expense	
Gas Operations Program	4,416
Company Labor	4,128
Manhour & Transportation	1,235
R&D and Low Income	1,166
Employee Health Insurance and Other Benefits	785
Telephone	751
Pension/OPEB	(2,095)
All Other	(592)
Total O&M Expense	9,794
Depreciation Expense	5,164
Taxes Other Than Income Taxes	
Property Taxes	11,908
Payroll and Other	525
	12,433
Income Taxes - FIT	
Flow Through Deductions	3,800
Rate Base	
Net Plant	14,105
Working Capital	1,042
Accumulated Deferred FIT (bonus depreciation, etc.)	(6,164)
EBCAP Adjustment	(3,319)
All Other Rate Base items	1,224
Total Rate Base	6,888
Rate of Return	(7,025)
JP RY1 Revenue Requirement	$27,525

Orange & Rockland Utilities, Inc.
Three-Year Gas Revenue Requirement
($ millions)

	Twelve Months Ending October 31		
	2016	2017	2018
Base Rate Increase - RY1	$ 27.5		
Operating Revenues			
Net Change - Revenues		$ 2.3	$ 3.3
- Change in Revenue Taxes		(0)	(0.1)
- Change in SBC / RPS		0.9	0.1
- Purchased Power		(2.7)	(2.7)
Net Operating Revenues		0.5	0.6
Other Operating Revenues		0.2	0.0
Amortization of Regulatory Deferrals		(0.4)	(0.4)
Net Revenues		$ 0.3	$ 0.3
Operating Expenses			
Operation & Maintenance Expense (excl. Fuel)			
- Labor & General Escalations		0.2	1.2
- Pension and OPEBs		(0.8)	(0.7)
- Uncollectibles		0.2	0.1
Depreciation & Amortization		1.4	1.4
Taxes Other - excl. Revenue Taxes		1.2	1.7
Federal Income Taxes		0.2	0.5
Pre Tax Return and Rate Base		2.3	2.6
Subtotal		$ 4.7	$ 6.9
Net Rate Change	$ -	$ 4.4	$ 6.7

Additional Language for Appendix 23 to the Joint Proposal

[The following text should be included right above the last paragraph on page 2 of Appendix 23]

The level of net plant incorporated into the revenue requirement in rates, as identified in Appendix 2, includes LPP footage replacement. In addition, the examples for the net plant reconciliation included in Appendix 9 (pages 6 of 7 and 7 of 7) incorporate the revenue requirement due to LPP footage replacement. To prevent double recovery, the cumulative amount to be collected through the RSM is limited to the lesser of (1) the positive cumulative amount of carrying charges in the net plant reconciliation, as calculated pursuant to Section D.2.a. of the Proposal ("Net Plant Reconciliation") or (2) the cumulative amount of carrying charges and depreciation for LPP, incremental to the amounts provided for in rates, as identified on pages 5 and 6 of Appendix 23. The Company will not be allowed to recover the carrying costs on incremental capital expenditures associated with the replacement of LPP through the RSM if the actual Net Plant Reconciliation is equal to or below the Net Plant target identified in Appendix 9, page 3 of 7.

The Company can either:

1) make interim net collections through the RSM (*i.e.*, at the end of RY1, RY2, and/or RY3); or
2) accrue the cumulative RSM during the three year Gas Rate Plan and make the net collection, if any, at the end of RY3.

Referring to the examples set forth in Appendix 9 (page 7 of 7) and Appendix 23 (page 6 of 6), the cumulative net plant amounts are $93,000 though RY1, $62,000 through RY2, and $(328,000) through RY3; the cumulative carrying charges for LPP incremental to the amount in rates are $81,400 through RY1, $345,000 through RY2, and $802,500 through RY3. The RSM would equal $81,400 for LPP replacement through RY1 (lower of $93,000 and $81,400) and $62,000 for LPP replacement through RY2 (lower of $62,000 and $345,000).[1] Net collections for LPP replacement through RY3 are $0 (net plant reconciliation is negative $328,000).[2]

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1 Because the RSM is cumulative, if the Company had made an interim net collection of $81,400 at the end of RY1, at the end of RY2, the Company would be required to refund $19,400 to customers ($81,400 - $62,000).

2 Because the RSM is cumulative, if the Company had made an interim net collection of $62.000 at the end of RY2, at the end of RY3, the Company would be required to refund $62,000 to customers.