2010 - 2011 Annual Report

New York State Public Service Commission

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

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

AGENCY DESCRIPTION: *The Department of Public Service has a broad mandate to ensure that all New Yorkers have access to reliable utility services. The Department is the staff arm of the Public Service Commission. The Commission regulates the state's electric, gas, steam, telecommunications, and water utilities. The Commission is charged by law with responsibility for setting rates and ensuring that adequate service is provided by New York's utilities. In addition, the Commission exercises jurisdiction over the siting of major gas and electric transmission facilities and has responsibility for ensuring the safety of natural gas and liquid petroleum pipelines.*

Bipartisan by law since 1970, the Commission consists of up to five members, each appointed by the Governor and confirmed by the State Senate for a term of six years or to complete an unexpired term of a former Commissioner. The Chairman, designated by the Governor, is the chief executive officer of the Department of Public Service.

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A message from the Chairman . . .

I would like to take this opportunity to address some of the most pressing challenges facing New York's utilities and ratepayers during these difficult economic times. The Commission's number one job in its regulatory role continues to be balancing the needs of the ratepayers, the utilities and the grid system.

Our policies seek to achieve maximum ratepayer, reliability, and environmental benefits consistent with providing utility service to consumers at just and reasonable rates.

With regard to energy utility investment, the Commission is moving forward on two major fronts: allowing for investment to maintain, replace or upgrade existing utility transmission and distribution infrastructure, and also encouraging investment to advance an array of various new energy programs including the development of new technologies, promotion of energy efficiency programs and the development of new technologies for a smarter grid.

While projects to repair or replace existing infrastructure typically raise costs to ratepayers, clean energy projects can be both energy and infrastructure cost avoiders.

The utilities estimate they will need to invest up to $12 billion in the next five years simply to maintain reliability and meet various local, regional and federal reliability criteria. Additionally, significant transmission investment is projected by the utilities in the next decade, wherein, up to 30 percent of the 7,800 miles of the states' existing utility transmission lines are candidates to be replaced.

Several utilities recently completed major infrastructure projects, including—Con Edison's M-29 project; National Grid's Northeast NY Reinforcement project; NYSEG's Ithaca Transmission Project; and RG&E's Rochester Transmission Projects.

The Commission is also working toward goals including having 30 percent of energy consumed by 2015 (Renewable Portfolio Standard or RPS) be from renewable resources, and reducing energy consumption by 15 percent by 2015 (Energy Efficiency Portfolio Standard or EEPS). It is estimated that ratepayers will contribute nearly $2 billion to help facilitate construction of renewable generation facilities awarded contracts under the state's RPS program.

At the same time, the Commission has placed emphasis on load reduction through energy efficiency and demand response targeted to areas that will help avoid certain expenditures as evidenced by Con Edison's targeted demand response programs. Also, the Commission has approved approximately $771 million in funding through 2015 for electric energy efficiency programs which are expected to reduce statewide electricity usage by 3,990.3 GWh by the end of 2015.

Efficiency and renewable energy done properly can benefit ratepayers by providing reliable, least-cost approaches to ratepayer needs that allow us to defer the need for certain other infrastructure investments.

I would also note that all of these investments result in significant environmental benefits as well. New York ranks among the cleanest states and power plant emissions have declined significantly since 1999—SO^2 is down 82 percent; CO^2 is down 31 percent; and NOx is down 62 percent.

Challenges continue as well in the telecommunication, private water, steam and natural gas sectors as well.

The Commission in June 2010 began a process to adopt a new service quality improvement plan for Verizon, the state's largest wire-line telephone company, which would satisfy the Commission's core interest of protecting customers while at the same time allowing competition to set the level of service quality whenever possible.

On an historical note, the Commission granted Verizon permission to provide residential white page directories only to customers upon request, effectively ending the residential distribution of white pages, and saving approximately 5,000 tons of paper per year.

The Commission approved several major water-related and gas-related rate cases, including a new rate plan for United Water New York, operating in Rockland County, as well as establishing a three-year, four-month rate plan for gas service provided by New York State Electric & Gas and Rochester Gas and Electric. The Commission also adopted a three-year rate plan that establishes new natural gas delivery rates for Consolidated Edison.

Finally, the Commission voted to adopt a three-year rate plan that establishes new steam delivery rates for Consolidated Edison. The plan minimizes the impact of rate increases on individual customers and on the service territory as a whole and it provides the company the revenues and direction needed to provide safe and adequate service over an extended period of time.

As the primary steward of ratepayers' money, it is imperative that the Commission remain acutely aware of the costs of investments being made in the state's utility infrastructure, renewable energy and energy efficiency programs. We need to ensure that investments are efficient and effective to maintain reliability and to minimize the cost to ratepayers.

Maintaining the balance between enhanced reliability, clean energy, consumer utility prices and our economic competitiveness will be a continuing challenge for the Commission.

Garry Brown
Chairman

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I. AUDITS AND INVESTIGATIONS

Investigation into National Grid's Affiliate Transactions

In September 2010, the Public Service Commission initiated an investigation into National Grid's affiliate costs, policies and procedures. Ratepayers' interests would be protected during the pendency of the investigation *(Case 10-M-0451)*. The Commission's investigation is a direct outgrowth of a December 2009 Management Audit Report in *Case 08-E-0827* and the testimony of the trial staff of the Department of Public Service in the Commission's 2010-2011 National Grid electric rate proceeding in *Case 10-E-0050*.

In November 2010, the Commission voted to issue a Request for Proposals to seek an independent consultant to perform an investigative accounting examination of National Grid's affiliate cost allocations by its service companies *(Case 10-M-0451)*. In February 2011, the Commission selected a nationally recognized management consulting firm to perform the management audit of National Grid's affiliate cost allocations, policies and procedures in *Case 10-M-0451*.

The investigative accounting examination would include affiliate transactions of National Grid USA's (NG USA) New York regulated utilities—Niagara Mohawk Power Corporation, Brooklyn Union Gas (NMPC), d/b/a KeySpan Energy Delivery New York (KEDNY) and KeySpan Gas East Corporation, d/b/a KeySpan Long Island (KEDLI), collectively described as the National Grid New York (NG NY) utilities—affiliate transactions and specifically those with National Grid USA service companies.

Management Audit of Iberdrola's NY Utilities

The Public Service Commission approved the issuance of a Request for Proposals in December 2010 in *Case 10-M-0551*, for an independent consultant to conduct a management audit of Iberdrola, USA (IUSA) New York operating utilities—New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E)—and certain aspects of IUSA and Iberdrola, S.A. to evaluate the resulting impact on New York State ratepayers.

Iberdrola has an international corporate structure that differs from most other electric and gas utilities in New York State. Iberdrola's executive management, including the Board of Directors, is located in Spain. The corporate offices for IUSA are located in New Gloucester, Maine. The Commission's management audit would focus on IUSA's New York construction program processes and operational efficiency, and how the New York operations and ratepayers are impacted by decisions made outside New York. A component of the management audit would also review whether sufficient accounting procedures and internal controls exist over affiliate transactions.

In March 2011, the Commission selected a management consulting company to perform a comprehensive management audit of IUSA focusing on NYSEG's and RG&E's construction program planning and operational efficiency. *(Case 10-M-0551).*

Noble Altona Windpark

The Commission received a report in May 2010 regarding Department of Public Service staff's investigation into the collapse of a wind turbine at the Noble Altona Windpark owned by an affiliate of Noble Environmental Power, LLC (Noble).

As a result of the investigation, the Commission ordered Noble to show cause why it should not be required to demonstrate, through a third-party certification or otherwise, that its wind farms in New York are providing safe wholesale electric service, and that all quality assurance and quality control program measures and manufacturer's recommendations for inspection and maintenance of turbines, towers and related facilities have been implemented for the facilities in New York.

> *"This Commission takes very seriously its responsibility to ensure that the electric corporations it regulates provide safe and reliable electric service,"* said Commission Chairman Garry Brown. *"As we continue to encourage and promote development of new wind farms in New York State to help us create greater amounts of renewable energy, we must make sure that those installing and operating wind turbines do so properly, and with all necessary safeguards in place."*

The Commission's decision to issue an order to show cause stems from Staff's investigation into the collapse of a wind turbine at the 65-unit Noble Altona Windpark in Clinton County on March 6, 2009. The investigation concluded that the physical collapse of one turbine, and the failure of another, was the result of certain wiring being incorrectly installed. The incorrect wiring prevented the turbines from going into an automatic shut-down mode due to loss of electric power, which in fact did occur the day of the collapse when contractors changed settings on a bank of relays *(Case 10-E-0149).*

Review of Gas Reconciliations

In December 2010, the Commission instituted a proceeding for Consolidated Edison Company of New York, Inc. (Con Edison) to review its accounting and reporting practices related to its natural gas delivery business. Upon review, Con Edison discovered an anomaly in its recent historic and current Lost and Unaccounted for (LAUF) gas. Con Edison was including gas that did not belong in the LAUF calculation. Therefore, Con Edison will be ordered to perform an analysis of the error and its impact on the company's customers. Con Edison would also be required to provide a proposal for an appropriate remedy to correct the anomaly and its consequences.

Additionally, a proceeding for New York State Electric and Gas Company (NYSEG) was commenced to review the company's overall stranded natural gas capacity costs more fully. These matters are being reviewed in *Case 10-G-0467*.A review of the filing of NYSEG revealed that NYSEG's company-wide stranded capacity costs have generally been increasing on a monthly basis for the last several years, despite a 2007 Commission requirement of mandatory assignment of capacity by local distribution gas companies to retail marketers. NYSEG indicated to staff that it may have made an ongoing error in its calculation of the charge to customers by not including capacity release credits in its surcharge. Accordingly, the Commission established a second proceeding to examine NYSEG's stranded capacity, including an explanation for any increases in the amount of such capacity, how the associated costs have been calculated, and how NYSEG has mitigated such costs *(Case 10-G-0467).*

II. CONSUMER ISSUES

PSC Boosts Assistance to Utility Customers

In April 2010, the Commission announced that staff provided assistance to more than 282,000 utility customers in 2009, leading to more than $4 million in bill credits and refunds, up from $2.2 million in 2008. In addition, utility customers were assisted with billing, service and other matters via the Commission's toll-free help lines and emergency hotlines, a continually updated website, through visits to its offices in Albany, Buffalo and New York City, or at more than 250 outreach and education statewide events that staff participated in.

"The Commission strives to ensure essential consumer protections and rights regarding services provided by our utilities," said Commission Chairman Garry Brown. *"Ensuring consumer protection requires more than just monitoring utilities to minimize missteps. It requires providing information to consumers about their rights, protections and available assistance programs. Our staff plays a critical role in working directly with consumers to help them understand their rights and resolve issues they have with their utilities in a fair and equitable manner."*

In addition to resolving matters with utilities, staff is responsible for ensuring customers receive the assistance and protections they are entitled to under the Home Energy Fair Practices Act, which governs the provision of natural gas, electric and steam service to residential customers. Working with the major gas and electric companies in the state, Commission staff took additional steps during the 2009-2010 winter to assist customers, especially the state's most vulnerable residents—the elderly, blind, disable and low income. These steps included offering renegotiated deferred payment agreements, refraining from terminating service during extremely severe winter weather, offering utility payment assistance programs, and encouraging the use of budget billing to make monthly bills more manageable.

National Grid Refund

In April 2010, the Commission voted to accept a Joint Proposal to allocate the proceeds of federal tax refunds obtained by National Grid. Under the Joint Proposal, upstate customers will receive $25.90 million, reflecting $18.7 million of the company's refund, plus $7.26 million in carrying charges. The company's refund is the result of the cumulative effect of 156 audit and settlement adjustments by the Internal Revenue Service due in part to the sale of generation assets during the period 1991 to 1995. The federal tax refund was substantially received by National Grid in March 2003 and April 2004 with the final interest payment received in December 2007 *(Case 09-M-0554).*

LIFE Conference

The Commission and the New York State Energy Research and Development Authority in May 2010, sponsored a statewide Low-Income Forum on Energy (LIFE) conference to bring together organizations and individuals for a unique dialogue that encourages an interactive exchange of information and collaboration among the programs and resources that assist low-income energy consumers.

The 12th Annual LIFE Statewide Conference provided an exceptional opportunity to network with those individuals and organizations that share a commitment to assisting low-income energy customers. Additionally, the conference provided valuable information on utility consumer protections and programs, and timely information on available energy efficiency programs and services to help consumers conserve energy and reduce energy bills.

PSC Action to Increase Competition

In July 2010, the Commission voted to allow several electric utilities in the state—Con Edison, National Grid, Central Hudson and Orange & Rockland—to provide customers with the ability to remotely access individual utility account numbers simply by inputting part of the customer's Social Security number.

> *"This real-time remote access to utility account numbers will facilitate the ability of energy service companies, better known as ESCOs, to market their services and enroll customers,"* said Commission Chairman Garry Brown. *"Our action will help increase competition among energy providers in new York."*

Prior to utilities offering this customer-friendly service to customers, they must consult with the ESCOs actively marketing in the utilities' respective service territories, to determine how to recover the costs of the approved plans from those ESCOs *(Case 98-M-1343).*

Energy Shopping Website Update, Revamped

In yet another customer-friendly action in August of 2010, the Commission announced its totally revamped and significant improved website custom-designed to help residential customers competitively shop for electricity and natural gas suppliers. The website can be found at www.newyorkpowertochoose.com. The new and improved website will provide the wherewithal for consumers to become better-informed about energy suppliers and services. Currently, more than one million residential customers in New York are purchasing their electricity and natural gas from energy service companies (ESCOs).

ESCO Consumers Bill of Rights

In December 2010, the Commission in a move designed to further protect energy consumers, adopted a new set of rights for residential customers who do business with energy service companies (ESCOs) and it also incorporated changes in state law into its uniform business practices related to ESCO marketing practices.

> *"Under the new statutory amendments, consumer rights are expanded in connection with door-to-door sales and residential sales, and avenues for enforcement of the statute's provisions have been created,"* said Commission Chairman Garry Brown. *"While we welcome and encourage retail competition in the energy business, we must also ensure that residential consumers are treated fairly and reasonably."*

The Commission action implemented provisions of Section 349-d of the General Business Law (GBL) by adopting an ESCO Consumers Bill of Rights and incorporating certain provisions of GBL Section 349-d into the Commission's uniform business practices related to ESCO marketing practices *(Case 98-M-1343).*

Con Edison Customers Receive $80.1M Credit

In September 2010, Con Edison was required to provide through customers bills issued in September, a one-time credit totaling $41.8 million. In addition, a similar credit of $38.3 million was provided through customer bills issued in August 2010. These credits were owed to customers because Con Edison experienced greater than anticipated sales, and therefore, collected more revenue during the 2010 summer heat wave than the Commission had authorized for the company to operate and maintain New York City's electric grid; in such instances, the Commission requires the utility to give the additional revenue back to its customers *(Case 07-E-0523).*

Winter Weather Special Protections

The Commission reminded consumers that procedures designed to protect residential customers of natural gas and electric utilities during the winter months begin on November 1, 2010. These special rules—which provide residential energy customers with comprehensive protections in areas such as application for services, customer billing, and payment and complaint procedures—remain in effect through April 15, 2011.

Under these winter weather rules, utilities are required to notify the customer or adult at the residence at least 72 hours before service is terminated, including making a personal visit to the residence, if necessary. In addition, the utility must notify the local department of social services if a resident is likely to suffer a serious impairment to health or safety if service is terminated.

These added protections are for customers known to be blind, disabled, or 62 or older and all remaining resident of household are 62 or older, or 18 years or younger, or blind. Customers suffering from a serious illness or medical condition may also qualify for additional protections. Certification by a medical doctor is necessary. The Commission encourages any customer who believes they qualify for added protections to contact their utility company.

Expansion of St. Lawrence Service Territory

The Commission in February 2011 adopted the terms of a Joint Proposal to authorize the construction of a natural gas transmission pipeline extending 78 miles into northern Franklin County from the company's pre-existing pipeline in eastern St. Lawrence County. In addition, the Commission authorized a new 50-mile network of distribution lines to expand the natural gas delivery service to nearly 2,500 customers in these two counties.

The project's construction phase and customer savings will result in millions of additional dollars of revenue to the state and Franklin and St. Lawrence counties. The total customer savings statewide is estimated to equal $60 million over 20 years, and that savings is expected to generate an additional $32 million statewide in direct and indirect spending. The total fiscal impact of the construction activity and customer savings is expected to equal $1.7 million in additional state tax revenue over 20 years. Regionally, the economic impacts will include an additional $10.6 million generated from the expenditure of the customer savings over 20 years *(Cases 10-T-0154, 10-G-0295).*

III. ENERGY EFFICIENCY

1st Quarter 2010 EEPS Report

In May 2010, the Commission received a report from staff of the Department of Public Service regarding the first quarter performance of the Commission's landmark Energy Efficiency Portfolio Standard (EEPS), one of the most comprehensive and aggressive energy efficiency initiatives in the nation.

The fundamental objective of EEPS is to put in place new energy efficiency programs that will help reduce New York's electricity usage by 15 percent of forecast levels by 2015, with comparable results in natural gas efficiency, and to provide a variety of other environmental and economic benefits to New Yorkers. Programs under EEPS are available from State's electric and gas utilities as well as the New York State Energy Research and Development Authority (NYSERDA).

> *"Undertaking an effort as large and ambitious as the Commission's EEPS initiative is an arduous task that requires the effort of numerous parties working cooperatively,"* said Commission Chairman Garry Brown. *"In reviewing energy savings achieved through the first quarter, it is important to realize that many of the programs are just beginning to offer services to customers, and many more programs will begin offering these services in the next few months. We expect to see steady increases in the reported energy savings."*

To date the Commission has, after careful consideration, approved 90 individual programs supported by about $922 million of ratepayer funding to be collected through the end of 2011. Future steps will include the evaluation of existing programs and the extension of successful programs through 2015. Over 60 of the approved programs are reporting implementation-related activity, and 23 programs are reporting energy savings; the bulk of the remaining programs will become operational by the summer.

Through March of 2010, EEPS program administrators reported that approximately $53.4 million has been expended for EEPS program implementation and another $17.1 million has been committed, mostly through contracts or agreements with vendors. Electric energy efficiency measures installed to date would reduce average annual consumption by 158,591 MWhs, enough to meet the electricity needs of approximately 24,400 homes. Gas energy efficiency measures installed so far would reduce average annual natural gas usage by 489,990 dekatherms, which would meet the energy annual gas usage of approximately 5,850 homes each year. It is expected that expenditures and MWh savings will continue to ramp up during 2010 *(Case 07-M-0548).*

New Yorkers Can Go Green

The Commission supported the April 2010 Earth Day celebrations by participating in several consumer events throughout the State. The 40th anniversary of the first Earth Day celebration highlighted the Commission's continued commitment to environmental awareness. Staff of the Department of Public Service participated in several Earth Day celebration events, where consumers could find out more about their "power" to go green.

In support of the State's clean energy economy, the development of renewable energy sources helps provide immediate alternatives to transition away from our dependence on fossil fuels, with numerous environmental, economic and societal benefits to consumers.

New York is nationally recognized for its investments in clean renewable energy technologies. To date, 39 projects have been selected under the Renewable Portfolio Standard (RPS) program representing more than 1,532 megawatts of renewable capacity.

The Commission has put in place new energy efficiency programs that will help reduce New York's electricity usage by 15 percent of forecast levels by 2015, with comparable results in natural gas conservation.

The Commission is committed to ensuring that all customers have access to reliable electricity by helping consumers use and choose energy supply wisely. One of the benefits of New York's competitive market is that consumers now have access to information that enables consumers to take into account the environmental impacts of the energy supply purchased. As a result, Green Power service providers are now offering a variety of renewable energy service options.

Modifications to EEPS Program

In June 2010, the Commission approved several new programs and changes in funding for several selected gas and electric Energy Efficiency Portfolio Standard (EEPS) programs for the commercial and industrial, residential, and low-income residential customer market segments. The Commission previously approved electric energy efficiency programs with estimated total cumulative annual energy savings of approximately 3.9 million MWh and about $295.2 million in annualized program funding. In its June 2010 action, the Commission approved increasing the annual funding for electric efficiency programs by $5.2 million.

"*As part of the process of reviewing program proposals for funding, the Commission reserved the option to make adjustments to program funding levels based upon demand and changing market conditions,*" said Commission Chairman Garry Brown. "*Backed by a clear picture of the exact pro- grammatic needs, and to better meet stronger-than-expected demand for some programs, we are now in a position to make the necessary modifications to the program.*"

In approaching the rebalancing process, the Commission considered several factors: statewide geographical and market segment equity; the relationship between the expected energy savings based on Commission-approved program authorizations versus the expectations for overall portfolio attainment set forth in the foundational EEPS policy orders; the unique needs of underserved and special-needs market segments; consideration of programs that the Commission did not previously review; adjustments required due to changes in market conditions, new circumstances, or policy considerations; and the impact or burden on ratepayers.

The natural gas energy efficiency programs also underwent some changes. The Commission approved an additional $23.5 million in incremental annual funding be allocated to bring the overall funding level up to $130 million. The new funding was needed in part to meet greater-than-anticipated market demand upstate for residential heating system replacements for the residential gas HVAC program.

The Commission also approved a new initiative — the Agriculture Energy Efficiency Program — to provide specialized energy efficiency services to the state's agricultural sector. The annualized funding for the program includes $3 million per year for electric energy efficiency measures and $300,000 per year for natural gas efficiency measures. The new initiative will be implemented by New York State Energy Research and Development Authority and should provide much greater access to energy efficiency services for the agricultural market sector.

The new funding will be directed specifically to programs operated by Central Hudson Gas & Electric Corporation, Rochester Gas and Electric Corporation, New York State Electric and Gas Corporation, National Grid, Orange and Rockland Utilities Inc., and New York State Energy Research and Development Authority, which now includes an agriculture energy efficiency component *(Case 07-M00458).*

2nd Quarter 2010 EEPS Results

The Commission in August 2010 received a report from Department of Public Service staff detailing the latest successes of the Commission's landmark Energy Efficiency Portfolio Standard (EEPS) proceeding.

"Substantial progress continues to be made in terms of meeting the goals set by the Commission's energy efficiency efforts," said Commission Chairman Garry Brown. *"We are seeing steady month-over-month gains in the annualized energy savings as a result of the installation of new electric and gas efficiency measures."*

Through June 2010, approximately $82.5 million has been expended for EEPS program implementation and another $27.8 million has been committed. A large share of the Commission's electric and gas energy efficiency programs are already reporting monthly energy savings from installed measures with more programs expected to be reporting savings in the coming months.

The annualized energy savings for electric efficiency measure installations through June were about 396,000 MWh, up from about 160,000 MWh at the end of March, enough to meet the electricity needs of approximately 61,000 homes. The annualized gas energy savings for efficiency measures installed through June were about 750,000 dekatherms, up from about 490,000 dekatherms at the end of March, which would meet the energy annual gas usage of approximately 8,900 homes each year *(Case 07-M-0648).*

NFG's CIP Program

The Commission in October 2010 sought public comments on National Fuel Gas Distribution Corporation's (NFG) petition dated June 28, 2010 that seeks approval to continue its Conservation Incentive Program (CIP) with slight modifications from its current form for a fourth program year – 2010-2011.

The company's proposed changes include: adjusting the calculation for non-residential, customized rebates; reducing the budget and reporting frequency for the outreach and education segment of the program; and hiring a consultant to review the company's evaluation plan. The petition also seeks clarification regarding the eligibility requirements for programmable thermostats. Additional comments continue to be encouraged in this matter.

In November 2010 the Commission approved, with modifications, NFG's request to continue its $20.4 million energy efficiency program which provides rebates to residential and non-residential customers who purchase and install energy efficient equipment, as well as offering assistance to low-income customers *(Case 07-G-0141).*

Central Hudson's EEPS Program

In October 2010, the Commission granted Central Hudson Gas & Electric Corporation's request for authorization to provide a zero percent financing option for customers participating in the company's small commercial business direct install and mid-size commercial business programs.

> *"Offering zero percent financing may encourage small and mid-size commercial customers to adopt energy efficiency measures by increasing access to capital and lowering capital costs,"* said Commission Chairman Garry Brown.

The $6 million small business program provides Central Hudson's small non-residential electric customers (demand under 100 kW) with energy audits, implementation assistance and rebates for a prescribed list of electric energy efficiency equipment installed at the customer's location. The company's $1.2 million mid-size commercial business program offers energy audits and implementation services, as well as rebates for the installation of energy efficient lighting, heating, ventilation and air conditioning (HVAC), and other custom measures *(Case 07-M-0548)*

New Twist on Energy Efficiency Approved

The Commission in November 2010 authorized National Grid and Central Hudson Gas and Electric Corporation (Central Hudson) to implement energy efficiency programs in their respective territories that are designed to induce residential customers to use less energy by providing customers with specific information about their energy usage and how it compares to others.

> *"Through customized, easy-to-understand reports, National Grid and Central Hudson residential customers will be able to see how their energy usage differs from customers that have comparable housing and demographic characteristics,"* said Commission Chairman Garry Brown. *"This innovative initiative will provide residential customers with an ability to better understand and control their household's energy usage, which will help lead to lower utility bills in the long run."*

The programs will also provide participating customers with energy saving tips, an energy savings progress tracker and other energy efficiency information designed to be more relevant to a participant's circumstances than a broad outreach program. The reports will include information about various steps that can be taken by the customers to reduce energy use, including no-cost and low-cost measures and more costly investments such as installing high-efficiency heating equipment, and information about energy efficiency programs offered by their utility and by New York State Energy Research and Development Authority.

To ensure the privacy of residential customers who participate in the programs, the Commission will require the utility and its third-party vendor to put in place a strict plan designed to keep customer information confidential *(Cases 07-M-0548, 08-E-1133, 08-E-1135, 09-G-0363).*

Energy Efficiency Program Fine-Tuned

The Commission voted in December 2010 to direct the New York State Energy Research and Development Authority (NYSERDA) to commence a stakeholder process to develop a new operating plan for the System Benefits Charge (SBC) program, the state's long-standing energy efficiency and clean-energy development initiative.

"The Commission's establishment of the SBC program over a decade ago has led to one of the nation's most vigorous energy efficiency, renewable energy, and clean technology markets in the country," said Commission Chairman Garry Brown. *"The further evaluation of these nationally recognized programs and services will enable us to make even greater contributions to New York's energy and economic future."*

The $180 million SBC program currently funds energy efficiency programs, outreach and education initiatives and various market transformation activities. Funding authorization for SBC would expire on June 30, 2011.

The new operating plan to be developed will likely include a broad array of programs aimed at technology and market development, rather than resource acquisition programs focused on the realization of energy savings. The Commission asked that the new plan be submitted by May 1, 2011.

To better focus New York State's energy resource acquisition efforts, the Commission also adopted a proposal by NYSERDA to transfer eight SBC resource acquisition programs with total annual funding of $98 million to the Energy Efficiency Portfolio Standard (EEPS) initiative. Six of the eight programs are similar to already existing EEPS and can be transferred with no further review. NYSERDA will develop an operating plan for the remaining two programs which will be reviewed by the Commission's staff. The transfer is expected to occur on July 1, 2011.

All existing NYSERDA SBC programs that are not transferred to EEPS would continue in their present form until the Commission formally acts on the technology and market development operating plan that is the subject of the stakeholder process NYSERDA has been directed to commence.

Finally, the Commission directed NYSERDA to work with utilities to modify its collection agreements to provide greater flexibility and to better coordinate actual utility payments with NYSERDA disbursements in a way that is beneficial to both utilities and ratepayers. As part of that effort, the Commission decided to defer remaining SBC collections from 2011 to 2012; a deferment that will not have any adverse impact on the timing or effectiveness of NYSERDA's programs *(Cases 10-M-0457, 05-M-0090).*

3rd Quarter 2010 EEPS Results

Staff of the Department of Public Service reported to the Commission in December 2010 the latest successes of the Energy Efficiency Portfolio Standard (EEPS) proceeding. Through September of 2010, approximately $122 million has been expended for EEPS program implementation and another $46 million has been committed. A large share of the Commission's electric and gas energy efficiency programs are already reporting monthly energy savings from installed measures with more programs expected to be reporting savings in the coming months.

"The gains we are making move us that much closer to realizing our overall goal of reducing New York's electricity consumption by 2015," said Commission Chairman Garry Brown. *"However, despite the gains, the pace of the program ramp-up has been slower than anticipated, largely due to the weak economic climate that is affecting residential and business customers' ability to make the necessary energy-saving investments."*

The annualized energy savings for electric efficiency measure installations through September was about 662,000 MWh, up 66 percent from about 397,000 MWh at the end of June, enough to meet the electricity needs of approximately 102,000 homes. The annualized gas energy savings for efficiency measures installed through September was about 865,154 dekatherms, up 15 percent from about 749,000 dekatherms at the end of June, enough to meet the natural gas usage of approximately 10,500 homes each year.

For utility-administered electric energy efficiency programs established as part of EEPS, the Commission mandated a system of financial incentives to promote better program performance, to motivate utilities to pursue efficiency programs as a resource option, and to enable the Commission to hold utilities accountable for meeting targets.

As part of its ongoing review, the Commission determined that EEPS utility incentive mechanism should be continued essentially unchanged, except that the already combined 2008-2010 energy savings targets should be further combined with the 2011 energy savings targets to create a single 2008-2011 target. Calendar year targets should thereafter be in effect for 2012 and beyond *(Case 07-M-0548).*

NYSEG and RG&E Efficiency Programs OK'D

In January 2011 the Commission approved two new residential Energy Efficiency Portfolio Standard (EEPS) programs in New York State Electric and Gas Corporation's (NYSEG) and Rochester Gas and Electric Corporation's (RG&E) service territories.

The first program approved was an appliance rebate bounty program that would provide customers with $30 each for the removal and recycling of up to two functioning, inefficient second refrigerators and freezers. NYSEG and RG&E expect that this appliance bounty program would be well-received, with more than 6,000 customers expected to take advantage of the offer during the next two years.

The second program approved was an initiative designed to encourage consumers to voluntarily decrease their energy use. It will provide participating customers with customized reports that compare their energy usage with that of similarly situated neighbors. In addition, the reports would contain energy efficiency tips and information on available energy efficiency programs.

Each utility would set aside nearly $2.8 million for the appliance rebate program, with a projected electricity savings for each utility of 8,722 MWh. Each utility estimates that 98,330 gas and electric customers would participate in the behavioral modification program, saving enough to net total electric and gas savings targets of 22,252 MWh and 1,425,786 therms, respectively, on an annual basis starting in 2012 when fully subscribed *(Cases 07-M-0548, 08-E-1129, 08-E-1130, 09-G-0363).*

O&R Customers Offered Energy Efficiency Rebates

The Commission approved an electric efficiency program in January 2011 to serve Orange and Rockland Utilities, Inc.'s (O&R) residential customers. The approved program is designed to support the stocking, promotion and sale of high-efficiency air conditioners and dehumidifiers primarily through customer rebates. The program will also offer removal and recycling of second refrigerators. Each customer participating in the appliance rebate or bounty portion of the program will receive three free compact fluorescent lights (CFL).

The program approved by the Commission would provide $50 rebates to customers for purchasing Energy Star rated air conditioners. In addition, a second refrigerator and freezer removal and recycling component would be included as part of the program, which will include a $50 incentive. While the program's focus would be primarily on residential customers, small-business customers are also eligible to participate. For this particular program, O&R estimates 3,870 MWh in energy savings with a cumulative budget of more than $1.5 million through 2012 *(Cases 07-M-0548, 08-E-1128).*

New York's Energy Efficiency Gains Continue

The Commission in May 2011 received a report from Department of Public Service staff detailing the latest successes of the Commission's landmark Energy Efficiency Portfolio Standard (EEPS) proceeding.

"Energy efficiency is the most cost-effective, and most immediate, way to reduce the burden of rising energy and environmental costs on residential and business customers," said Commission Chairman Garry

Brown. "Our aggressive efforts to reduce electricity consumption by 15 percent by 2015 will enable customers to install energy-efficient equipment and appliances, help create clean energy jobs, and help reduce monthly utility bills."

Through December 2010, approximately $190 million had been expended for EEPS program implementation and another $74 million had been committed. Since June 2008, the Commission provided funding for the electric portion of the EEPS Program totaling $317 million annually through 2011. In May 2009, the Commission established targets for gas efficiency programs and subsequently authorized expenditures totaling $138 million annually. There are more than 100 energy efficiency programs for residential, commercial, and industrial customers now available.

The annualized energy savings for electric efficiency measure installations through December 2010 was about 864,000 MWh, up 30 percent from 662,000 MWh at the end of September 2010, enough to meet the electricity needs of approximately 133,000 homes. The annualized gas energy savings for efficiency measures installed through December 2010 was about 1,455,000 dekatherms, up 64 percent from about 885,000 dekatherms at the end of September2010, enough to meet the natural gas usage of approximately 17,600 homes each year.

In light of the success of the EEPS initiative, the Commission in March 2011 recommitted itself to the 15 percent reduction in energy consumption by 2015, and reaffirmed its general support for continuing EEPS. As part of the renewed commitment, the Commission will receive an in-depth review of the programs later in the year. The review will focus on the scorecard reports provided by the program administrators, as well as input from program evaluations, the implementation advisory group and various stakeholders *(Case 07-M-0548).*

IV. RATES

Central Hudson Gas and Electric Rates Approved

The Commission in June 2010 voted to adopt a three-year rate plan that establishes new electric and natural gas service delivery rates for Central Hudson Gas & Electric Corporation (Central Hudson) beginning July 1, 2010. Under the plan's terms, rate increases are delayed as much as possible to the plan's later years when economic conditions may have improved. The Commission also voted to substantially increase funding for assistance to Central Hudson's low-income customers and to provide other customer benefits.

"This rate plan serves the interests of customers and Central Hudson," said Commission Chairman Garry Brown. *"It minimizes the impact of rate increases on individual customers and on the service territory as a whole and it provides the company the revenues and direction needed to provide safe and adequate service over an extended planning horizon."*

Typical monthly residential electric bills for combined delivery and commodity service are expected to increase $4.42, or 4.1 percent, in the first year; $3.65, or 3.6 percent, in the second year; and $2.68, or 3.0 percent, in the third year. Typical monthly residential gas bills for combined delivery and commodity service are expected to increase $5.86, or 4.7 percent, in the first year; $2.73, or 2.1 percent, in the second year; and $2.02, or 1.5 percent, in the third year.

In view of the adverse economic conditions in the Central Hudson service territory, the new rate plan significantly strengthens the company's economic development programs. Central Hudson will commit up to $1 million annually, almost double the current amount, for a range of economic development initiatives, including a new program to assist entrepreneurs or start-up companies to wire buildings for electrical equipment *(Cases 09-E-0588, 09-G-0589).*

United Water NY to Collect Surcharge

The Commission in June 2010 adopted a recommendation to allow United Water New York Inc., operating in Rockland County, to collect $3.1 million by applying a 12.5 percent surcharge on all metered customers starting with the July 1, 2010 billing and continuing through December 31, 2010.

As part of United Water New York's existing three-year rate plan *(Case 06-W-0131),* the Commission authorized the company to reconcile allowances given in the rate case for metered revenues, production costs and property taxes on an annual basis. At the end of each rate year, actual billed metered revenues, production costs, and property taxes are reconciled; the company is permitted to apply a credit or surcharge to metered customers' bills to offset any net over- or under-collections.

Upon examination of the company's financial records, it was determined that for the rate year ended December 31, 2009 the total net metered revenues and production costs under-collection with interest was $2.58 million, combined with the property tax under-collection with interest of $524,130.

Based on this decision, an average annual usage residential customer would pay about an additional $30 for the period July 1, 2010 through December 31, 2010. The Commission's decision is separate and distinct from the Commission's pending decision in the ongoing United Water New York's rate case *(Case 09-W-0731).*

Net Rates Set For United Water NY Customer

In July 2010 the Commission voted to approve a three-year rate plan that establishes new rates for customers of United Water New York Inc., a water company operating throughout Rockland County and in a portion of Orange County. The plan also includes provisions that will enable United Water to move ahead with plans to improve the overall reliability of the water system.

"The decision to raise rates, especially in these hard economic times, is certainly not something done lightly and without significant consideration and review," said Commission Chairman Garry Brown. *"However,*

this plan allows for the continuation of improvements to system infrastructure, while ensuring a safe and adequate supply of water to meet customer needs."

As a result of the new revenue requirements, the average United Water residential customer will see the following increases in quarterly bills: $12.17 (9.01 percent) in the first year; $11.27 (7.65 percent) in the second year; and $15.48 (9.76 percent) in the third year.

The primary drivers of the rate increases are significant capital expenditures, increased real estate taxes, and higher employee-related expenses such as medical benefits and pension costs. The rate increases are necessary to recover prudently-incurred costs and they will benefit customers by enabling the company to build and maintain safe and reliable water facilities *(Case 09-W-0731).*

<u>NYSEG and RG&E Rate Plans</u>

The Commission in September 2010 established a three-year, four-month rate plan (aligning the companies' rate years to the calendar year) for electric and gas service provided by New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E). The new rate plan is effective September 25, 2010 through December 31, 2013.

Positive benefit adjustments of $260 million resulting from Iberdrola, SA's acquisition of the Energy East companies (NYSEG and RG&E) in 2008 were used to moderate increases in rates.

"The concerns expressed in the public comments, especially those focusing on the distressed economy and the affordability of utility bills, were utmost in the Commission's deliberations to carry out its statutory obligation to reasonably balance the companies' need to collect legitimate business costs to ensure the safety and reliability of the system with the interests of ratepayers," said Commission Chairman Garry Brown.

The rate plan calls for delivery rate increases for NYSEG and RG&E as follows: NYSEG electric service, approximately $16.4 million (2.5 percent), $27.8 million (4.2 percent), and $29.3 million (4.3 percent); NYSEG gas service, approximately $9.9 million (6.0 percent), $10.3 million (5.8 percent), and $10.5 million (5.6 percent); RG&E electric service, $15.6 million (4.1 percent), $10.2 million (2.6 percent) and $13.2 million (3.2 percent) and RG&E gas service, $10.9 million (8.0 percent), $10.9 million (7.3 percent), and $10.8 million (6.9 percent).

The increased delivery rate amounts were moderated and levelized through the use of over $260 million in positive benefits adjustments that were required and set aside for the benefit of ratepayers when NYSEG and RG&E were acquired by Iberdrola, SA in 2008. Additionally, $19.2 million in annual net savings from the companies' workforce reduction and related labor cost-cutting initiatives, as well as one percent annual productivity adjustment contributed to moderating the companies' revenue requirement.

Key components of the rate plan include electric reliability performance mechanisms, gas safety performance measures, customer service quality metrics and targets, and electric distribution vegetation management programs that establish threshold performance targets for each of the companies. There will be downward revenue adjustments for companies' failure to meet the targets, as well as annual reporting requirements.

Low-income program budgets were increased to approximately $12.3 million for NYSEG and $6.9 million for RG&E *(Cases 09-E-0715, 09-G-0716, 09-E-0717, 09-G-0718).*

New Gas Rates for Con Edison

The Commission voted in September 2010 to adopt a three-year rate plan that establishes new natural gas delivery rates for Consolidated Edison Company of New York, Inc. beginning Oct. 1, 2010. The Commission held hearings concerning the company's proposal to increase rates in June 2010.

Typical annual residential non-heating customer gas bills are expected to increase $16 (5 percent) in the first year; $14 (4.2 percent) in the second year; and $13 (4 percent) in the third year. Typical annual commercial heating customer gas bills are expected to increase $152 (2 percent) in the first year; $153 (1.9 percent) in the second year; and $147 (1.8 percent) in the third year.

The new rate plan also reflects: specific austerity measures in each of the three years in recognition of current economic conditions; stronger incentives for the company to effectively manage its costs; provisions to share excess company earnings, if any, with customers; expanded assistance to Con Edison's low-income customers; and enhanced incentives for gas safety and high-quality service.

Also, as a result of staff's investigation into the company's response to last year's Floral Park gas explosion *(Case 09-G-0380),* the company agreed that shareholders would provide a $1 million credit to customers *(Case 09-G-0795).*

Con Edison Steam Rates

The Commission in September 2010 voted to adopt a three-year rate plan that establishes new steam delivery rates for Consolidated Edison Company of New York, Inc. beginning Oct. 1, 2010. The Commission held hearings for the public concerning the company's rate proposal in June.

"This rate plan serves the interests of customers and Con Edison," said Commission Chairman Garry Brown. *"It minimizes the impact of rate increases on individual customers and on the service territory as a whole and it provides the company the revenues and direction needed to provide safe and adequate service over an extended period of time."*

The Con Edison steam system currently serves approximately 1,800 mostly high-usage customers with steam for space heating, hot water and for cooling equipment. Under terms of a Joint Proposal accepted by the Commission, rates will increase $49.5 million annually for the next three years, representing increases of approximately 7.0 percent, 6.5 percent and 6.1 percent on total bills in the three years, respectively.

Previously, in January of 2009, the Commission instituted a proceeding to consider the company's steam resource planning, East River Repowering Project (ERRP) cost allocation, and steam energy efficiency programs. By notice issued January 6, 2010, the ERRP cost allocation issue was transferred for decision from the steam planning case to the steam rate case.

As part of the Commission's September 2010 decision, it was determined that ERRP provides benefits to electric customers, but the benefits do not outweigh the current imbalance in cost allocation. Because the benefits tend to be capacity-related, the Commission supports a continuation of the current allocation method for non-fuel costs.

Specifically, the Commission agreed to maintain the existing allocation method for three years, while shifting $7.5 million per year in costs from electric customers to steam customers, beginning in the second rate year.

Furthermore, the Commission addressed the allocation of ERRP costs in the years following the approved steam rate plan. Non-fuel costs would continue to be allocated using the current method. For allocation of fuel costs, a new method would be adopted, to be placed in effect after the end of the three-year steam rate plan.

The steam revenue requirements were reduced by austerity cost adjustments totaling $9 million over the three-year period *(Cases 09-S-0794, 09-S-0029).*

New Rates Set for United Water New Rochelle

The Commission in October 2010 authorized increases in United Water New Rochelle's rates for water service to meet federal and state water quality requirements and cover increased costs of water supply. The rate plan covers the period November 1, 2010 through October 31, 2014.

The estimated bill impact of these increases on the current $756 annual bill of an average residential customer would be as follows: In rate year one, the customer would see a 3 percent increase to $778; in rate year two, a 10 percent increase to $857; in rate year three, a 9 percent increase to $933; and in rate year four, a 9 percent increase to $1,017.

There are two major drivers of the rate increase. Prior to 2009, United Water New Rochelle obtained all its water from the New York City water system through three aqueducts; 90 percent from the Catskill Aqueduct and 10 percent from the Delaware and Croton Aqueducts. When the New York State Department of Health determined that under the U.S. Environmental Protection Agency's Surface Water Treatment Rule the Croton Reservoir system required filtration; United Water New Rochelle began construction of the Delaware Interconnection Project (DIP) to access an alternative source.

This substantial addition of plant and its inclusion in rate base contributed significantly to the company's need for additional revenue. In addition, an increase of approximately 25 percent in the cost of water purchased from New York City—United Water New Rochelle's sole source of water supply—drive up rates *(Case 09-W-0824).*

Central Rates for Municipal LED Street Lighting

The Commission in November 2010, approved a new pricing option for Central Hudson Gas & Electric Corporation to enable municipalities to install energy efficient light emitting diodes (LED) street-lighting.

While some other utilities already have tariff rate designs that encourage the installation of LED street lighting in cities such as Rochester and New York City, this is a first for Central Hudson to directly offer tariffs to encourage municipalities to install LED street lighting. Similarly, Orange and Rockland Utilities, Inc. proposed company-owned LED fixtures in its street lighting tariffs in its ongoing rate case.

LED streetlights strike the best balance between brightness, affordability, and energy and environmental conservation when their life span is considered. LEDs consist of clusters of tiny, high-intensity bulbs and are extolled for their power efficiency and clear luminosity. The most common type of street light is the high-pressure sodium (HPS) lamps found in most cities. While LEDs are more expensive than HPS lamps, they consume half the electricity, last up to five times longer, and produce more light. *(Case 10-E-0420).*

United Water Westchester Rates

The Commission in December 2010, authorized increases in United Water Westchester Inc. rates for water service to reflect the increase in costs of ensuring a reliable supply of clean water. The rate plan covers the period November 1, 2010 through October 31, 2014. This was the first base rate increase for the company in more than a decade. The Commission held a public hearing on the company's proposal in August of 2010.

The Commission adopted the terms of a Joint Proposal containing a four-year rate plan, which provides levelized revenue increases of between 5 percent and 6 percent annually, approximately $693,000 per year.

Under the terms of the Joint Proposal, the estimated bill impact of these increases on the current $568 annual bill of an average residential customer would be as follows: In rate year one, the customer would see a 5.7 percent increase to $600; in rate year two, a 5.0 percent increase to $630; in rate year three, a 4.8 percent increase to $660; and in rate year four, a 4.5 percent increase to $690. All metered rates are being raised on the same percentage basis, regardless of how much water is consumed. The company will also establish a late payment charge of 1.5 percent per month on all delinquent bills.

Additionally, United Water Westchester is authorized to implement in the first, second, and third years of the four-year rate plan a surcharge of approximately 2 percent to recover increases in the cost of purchased water from New York City dating back to July 1, 2008 *(Case 09-W-0828).*

<u>New Grid's Delivery Bills Zero Increase</u>

The Commission voted on January 20, 2011 to hold the average National Grid customers' electric delivery bills to a zero increase for this year, while allowing the company an overall rate increase of approximately $112.7 million which is based on the company being allowed to earn a 9.1 percent return on equity. To accomplish a zero increase in average customers' electric delivery bills in 2011, the Commission postponed until next year the company's recovery in rates of certain expenses while at the same time allowing for a full recovery of all fixed competitive transition charges (CTCs).

"The Commission and its staff worked diligently to provide relief to National Grid ratepayers," said Commission Chairman Garry Brown. *"In addition to freezing electric delivery for the average residential customer this year, we anticipate next year residential delivery rates will remain steady; meanwhile, commercial and industrial customers next year could see rate decreases of up to 50 percent, a move that will have a positive economic impact all across upstate New York."*

Prior to the Commission's decision, a typical residential upstate National Grid customer using 500 kilowatts of electricity per month pays approximately $51.55 a month for delivery of electric service.

The fixed CTC charge, which is set to expire at the end of 2011, was established as part of Niagara Mohawk's 1998 rate plan and extended in 2002 as part of the merger of National Grid and Niagara Mohawk. The CTC was designed for the recovery of Niagara Mohawk's buy-out costs to end above-market priced federal and state mandated power supply contracts and the loss on the sale of Niagara Mohawk's generation assets.

The Commission was able to prevent an actual bill increase by postponing National Grid's recovery in rates of certain expenses such as post-employment benefits, major storm restoration costs, and site investigation and remediation costs, while at the same time allowing for a full recovery of all fixed CTCs for power supply contracts this year.

The Commission decided to provide National Grid the opportunity to earn up to a 9.3 percent return on equity if the company committed to not filing a general rate increase before January 1, 2012. If the company does not make that commitment, the return on equity will be set at 9.1 percent. Both would be set on a 48 percent equity ratio.

This return on equity is commensurate with the risks faced by the company, current interest rates and financial market conditions, and is required by investors to provide capital to National Grid.

The Commission also approved an increase of $3.7 million in funding for low-income assistance programs, to a total of $10.75 million. Low-income programs were strengthened by increasing monthly bill discounts for income-qualified electric heating customers and bill credits under the Affordability Program. National Grid will hire an additional Consumer Advocate to help assist eligible customers through the application process for low-income assistance (*Case 10-E-0050).*

Also, the Commission provided National Grid $30 million annually in rates to perform environmental remediation in its service territory at locations polluted due to early activity in the energy industry in the late 1800s and early 1900s. The Commission also will require National Grid to be responsible for 20 percent of all costs above the $30 million annual allowance.

In addition, the Commission directed staff to propose the scope of a new proceeding (*Case 11-M-0034)* to examine the experience of the company and of the other electric and gas utilities in the State with existing site remediation programs and identify opportunities and practices which could minimize the cost of these programs to ratepayers. In this examination, staff was also directed to reevaluate the distribution of such costs between electric and gas ratepayers and between ratepayers and the company.

PSC Looks at Environmental Remediation Costs

The Commission in February 2011 commenced a proceeding to review and evaluate how electric and natural gas utilities were recovering costs and the utilities' cost control incentives related to ongoing environmental cleanup of polluted sites left over from the conversion of coal into gas which was then used to heat and light streets, homes and businesses during the 1800s and early 1900s. The Department of Environmental Conservation estimates that there may be 300 of these sites in total.

To address concerns about rising costs of these remediation efforts, the Commission will ask utilities and all other parties to help develop a comprehensive record as to the current and future scope of the utility remediation programs in the state, the current cost controls utilized by utilities and opportunities to improve such controls, the appropriate allocation of responsibility for such costs, and methods to recover costs determined to be appropriately borne by ratepayers in a way that minimizes their impact.

In prior rate proceedings, the Commission examined remediation costs on a case-by-case basis and, in most cases, allowed utilities full recovery of prudently incurred costs. Such examinations included reviewing the number of sites, potential cost exposure, the timing of the clean-up, the financial situation of each utility, and each company's handling of site investigation, clean-up and third party and insurance recovery. However, the final analyses varied widely with each utility. Now, as these costs have escalated, a statewide review of these issues is in order *(Case 11-M-0034).*

Sale of NYSEG Assets Directly Benefits Customers

The Commission in February 2011 approved the transfer of the Seneca gas storage, West Lateral and East Pipeline facilities from New York State Electric & Gas Corporation (NYSEG) to a group of investors led by Inergy Midstream, LLC, for $65 million. With this decision, NYSEG's ratepayers will receive $31.6 million of net present value after taxes and other costs deducted to help reduce future delivery rate increases.

The lower operating costs resulting from this transaction will have the effect of reducing distribution rate increases for all firm NYSEG gas customers. Based on a compliance filing, the Commission expects that the combined net benefit to customers will significantly reduce the size of the overall rate increase imposed in the second and third year of NYSEG's gas operations' current rate plan. While the exact decrease has not yet been determined it could amount to an overall bill reduction of $5 million annually, depending on the time period over which the gain will be returned to customers *(Cases 10-G-0146, 10-M-0143, 95-T-0248).*

V. RELIABILITY

PSC Reviews Transmission Line Management Practices

In April 2010, the Commission voted to commence a proceeding to consider electric utility transmission right-of-way (ROW) management practices. As a result of its decision, the Commission would seek comments on the implementation of utility ROW management practices and the contribution of ROW management to the safety and reliability of the state's electric transmission system. In addition, comments will be sought on the balancing needed to be achieved by these utility practices of the concerns of ratepayers, neighboring property owners, the public, and other interested parties.

"Maintaining the highest degree of electric system reliability for the benefit of New York's customers is among the most important of our responsibilities," said Commission Chairman Garry Brown. *Reliability of the electric system depends upon the safe and effective transmission of electric power from the source of its generation. Effective right-of-way management is an essential component of system reliability. However, we must ensure this is being done in the best possible manner."*

The Commission's policy regarding ROW management established requirements for utilities' ROW maintenance programs and ensured adequate record keeping and reporting by the utilities. In addition, the federal Energy Policy Act imposes additional mandatory and enforceable reliability standards for utility ROW maintenance.

In view of the widespread importance of transmission ROW management and the concerns that have been expressed regarding vegetation management, comments were sought from the public and elected representatives, municipal resolutions and proposed legislation at public hearings held in August and September 2010, to determine whether changes to our ROW management policy are needed to ensure that the transmission system in our state would continue to be operated in a safe, effective and environmentally compatible manner.

In January 2011 staff made available for public comment its recommendations intended to ameliorate, the extent practical, some of the impacts that may be associated with ROW vegetation management. Since the majority of comments came from Con Edison and Orange and Rockland service territories, staff proposed recommendations solely for those utilities, while other recommendations apply to all state regulated utilities as further detailed in *Case 10-E-0155.*

NYSEG Tree Trimming

The Commission also reaffirmed in April 2010 the importance of requiring utilities to prevent trees from contacting high-powered transmission lines when it announced a $200,000 settlement with New York State Electric & Gas Corp. (NYSEG) after the utility failed to prevent a tree from encroaching a transmission line.

As part of the settlement, NYSEG agreed to contribute $200,000 in shareholder funds to a ratepayer deferral account. It also agreed to provide a written report detailing the number and location of in-house versus contract foresters, submit a plan for succession management for division foresters who are within five years of retiring, and make recommendations to stem the outflow of division foresters.

NYSEG will coordinate with Department staff on a customer outreach and education bill insert that will discuss the relationship between electric system reliability and the need for the company to trim or remove vegetation from the ROW *(Case 09-M-0427).*

DMP and Laser to Construct Pipeline

The Commission in February 2011 decided to grant a Certificate of Environmental Compatibility and Public Need to DMP New York, Inc. and Laser Northeast Gathering Company, LLC to construct approximately 9.8 miles of 16-inch diameter coated steel pipeline and a gas compressor station in the Town of Windsor, Broome County.

In July 2010, DMP and Laser submitted an application to construct a pipeline and gas compressor station to serve as a gathering pipeline for nine existing wells operated by Alta Resources, LLC in Susquehanna County, Pennsylvania, as well as future permitted wells in Pennsylvania. The gas gathering pipeline will feed into the companies' compressor station and metering site that will connect to the 30-inch diameter Millennium Gas Pipeline located in the Town of Windsor, New York. DMP expects to begin construction shortly.

To ensure environmental impacts are minimized, the Commission decided to impose several conditions relating to the construction and operation of the pipeline and compressor station. The Commission held two public statement hearings in October 2010 in the project area. Additionally, the Commission decided to approve the exercise of a road use agreement granted by the Town of Windsor in connection with pipeline construction *(Cases 10-T-0350, 10-G-0462).*

National Grid's Spier Falls Transmission Line

The Commission granted in February 2011 approval for the construction of a new 115kV electric transmission line from Spier Falls, Saratoga County, to Rotterdam, Schenectady County. The transmission line would be owned by National Grid.

The granting of a Certificate of Environmental Compatibility and Public Need will enable construction of an electric transmission line of approximately 33 miles between National Grid's Spier Falls substation, located next to Moreau State Park in Saratoga County, and its Rotterdam substation, located in Schenectady County, as well as reconstruction of a 4-mile spur line from the "Ballston Tap" to the Ballston Spa substation.

The new lines will be constructed within existing rights-of-way owned in fee by National Grid. However, their placement along the edge of existing rights-of-way will require the taking of 20- or 25-foot-wide "vegetation management easements," as well as "danger tree easements" of indeterminate widths, along virtually the entire length of the proposed new lines.

This project is the most immediate of a number of planned reinforcements that will address the current and long-range needs of National Grid's Northeast region. Failure to complete the project would leave the existing lines exposed to post-contingency thermal overloads, which could physically damage these facilities and cause interruption of electric service to tens of thousands of customers in the Northeast region *(Case 10-T-0080).*

AES 20MW Energy Storage System

The in April 2010 approved construction of a 20 megawatt (MW) energy storage system to be built in the Town of Union, Broome County. The $22.3 million project, owned by AES ES Westover, LLC, will use advanced battery technology to participate in the New York's growing ancillary services and regulation market.

"We are excited to support development of new, state-of-the-art facilities that will improve the efficient use of electricity," said Commission Chairman Garry Brown. *"This facility's state-of-the-art batteries will store energy and deliver it back to the grid when needed. This project — the first of its type in New York — will help improve the ability to store energy, a critical component needed to help us further strengthen and expand our use of renewable energy."*

The developer intends to construct the project in two phases, with construction to begin in the second quarter of 2010. The project builds on pilot and demonstration projects by AES Energy Storage LLC, the direct owner of AES ES Westover, that showed the feasibility and commercial potential for using systems composed of advanced lithium ion battery cells and power control technologies to help maintain the stability of the electric power grid. These technologies have the capability to meet the grid stability needs of the power market while performing more efficiently and with less environmental impact than existing resources.

The project will participate in the day-ahead market for ancillary reserves and regulation. This is a well-defined market for helping the NYISO in meeting reliability needs. AES ES Westover is a subsidiary of the AES Corporation *(Case 10-E-0042).*

Adequate Summer Electricity Supply Anticipated

The Commission received an update from the staff of the Department of Public Service (staff) in May 2010 outlining electric utilities' summer preparedness in terms of addressing transmission and distribution reliability needs, and price volatility for residential and small commercial and industrial customers who take electric supply service from the utilities.

Staff reported that a review of the supply of electric generation capacity and the transmission system condition in New York State indicates that the system is ready to provide adequate and reliable service for this summer. The New York Independent System Operator (NYISO) reports that there are adequate generation and demand side resources to provide necessary supplies of energy and reserves to meet the summer load projections.

Based on current 2010 projections from the New York Mercantile Exchange (NYMEX) data, forecast summer electric prices — June through September — is about the same as last summer's forecast prices. Actual prices can vary from the forecasts due to a number of factors such as weather and economic conditions *(Cases 10-E-0175, 10-E-0169).*

Reliable Service Quality by Electric Utilities

In June 2010, the Commission received reports from staff of the Department of Public Service (staff) assessing electric service reliability and customer service quality performance by electric utilities in New York. According to the reports, statewide interruption frequency for 2009, excluding major storms, was comparable to 2008 and better than the five-year average. In terms of customer service, utilities improved on the 2009 results by meeting or exceeding performance on 48 of 49 measures.

Staff's assessment of electric service reliability performance by utilities relies on two primary metrics to measure performance: the System Average Interruption Frequency Index (SAIFI or frequency) and the Customer Average Interruption Duration Index (CAIDI or duration). SAIFI is the average number of times that a customer is interrupted during a year. CAIDI is the average interruption duration time for those customers that experience an interruption during the year. No company incurred a negative revenue adjustment due to its failure to achieve frequency or duration outage targets in its reliability performance mechanism for 2009.

Also, the state's electric and gas utilities met or exceeded the standards for performance on 48 of the 49 measures of customer service established within the utilities' rate plans. With only one exception, all of the state's electric and gas utilities met or exceeded the applicable standards for performance on measures of customer service *(Case 10-E-0226).*

Hudson Transmission Partners

In September 2010, the Commission approved the New York portion of an approximately seven mile 345 kV transmission line from New Jersey to midtown Manhattan. A public hearing in this matter was held last April.

In March 2005, the New York Power Authority (NYPA) issued a request for proposals for up to 500 MW of electric capacity and energy for its governmental customers. Hudson Transmission Partners, LLC (HTP) was the winning bidder.

On January 15, 2008, HTP filed, pursuant to Public Service Law (PSL) Article VII, an application for a certificate of environmental compatibility and public need for an electric transmission facility. HTP proposed to build and operate a 345 kV electric transmission link between midtown Manhattan and the neighboring regional electric system located in Pennsylvania, New Jersey and Maryland, also known as PJM.

The Commission's decision was based on the fact that the HTP project would connect to and provide numerous benefits to New York City, one of the country's largest transmission-constrained load pockets. Increasing the amount of power that can be imported into New York City is an appropriate long-term goal, given the fact that energy imports are limited due to the constraints that separate the New York City electric system from the rest of the grid *(Case 08-T-0034).*

Response to Snow Storms

The Commission in September 2010, received a report from staff of the Department of Public Service (staff) that assessed Central Hudson Gas and Electric Corporation's (Central Hudson), Consolidated Edison Company of New York, Inc.'s (Con Edison), New York State Electric and Gas Corporation's (NYSEG), and Orange and Rockland Utilities, Inc.'s (O&R) restoration and customer service performance during the February and March 2010 storm events. Staff's report, where appropriate, included recommendations to improve future storm responses.

"The assessment process undertaken by staff after major storms is an invaluable tool that identifies opportunities to improve response and restoration procedures," said Commission Chairman Garry Brown.

“An opportunity for improvement that is critical to customers is more localized estimated restoration times, so customers can make necessary plans and minimize the effects of storm outages. Improving storm response and restoration efforts is a critical part of our mission to ensure safe and reliable service.”

Staff’s evaluation of the utilities’ performance, in response to the storms during the first quarter of 2010, finds that the utilities responded adequately, for the most part, to the February 23 and 25 and March 13 storms.

Nonetheless, staff did note concerns associated with estimated restoration times. For example, Con Edison failed to develop localized estimated restoration times and O&R failed to develop localized estimated restoration times properly and/or timely during the storms. Additionally, staff noted that improvements are needed in Central Hudson’s and Con Edison’s outage management systems (OMS) to provide accurate and timely customer restoration information.

As safety is a fundamental aspect of storm response, staff indicated that NYSEG needs to take steps to ensure that it follows the company’s Emergency Plan guidelines for determining the required number of personnel needed to keep the public away from downed lines, which was insufficient during restoration efforts in the Brewster and Mechanicville Divisions.

Staff noted a lack of feedback about life support equipment customers when utilities use police or other responders to assist them. Consequently, staff will coordinate a collaborative process with the utilities to develop guidelines and protocols for the utilities to properly communicate with life support equipment customers during both the pre-storm preparatory and post-storm service restoral phases to make sure the life support equipment customers are safe. Staff also made a series of additional recommendations ad further outlined in *Case 10-E-0331*.

<u>Gas Utilities Winter Ready</u>

Based upon an annual review of local utilities’ winter preparedness, the Commission announced in October 2010 that utilities providing natural gas service in the state have adequate supplies, delivery capacity, and storage inventory to satisfy customer demand under severe winter conditions. Meanwhile, to prepare for the coming cold-weather months, the Commission announced it will initiate a winter outreach program to alert New Yorkers of actions they can take to help control their winter heating bills.

Additionally, staff reviewed the utilities’ compliance with Commission policy regarding gas purchasing practices. Special attention was given by staff to the methods utilized by the utilities for gas price risk management efforts, including the use of hedges (i.e., storage gas and fixed price contracts) and financial instruments, such as futures and options.

In an effort to help consumers, staff of the Department of Public Service implemented an extensive consumer awareness campaign to alert New Yorkers to the 2010-2011 natural gas outlook for the State and the actions they can take to help manage their winter heating bills *(Case 06-G-1186).*

Con Edison Demand Response Program Improved

The Commission in January 2011, approved changes in Con Edison's demand response programs to increase enrollment, improve response to events, leverage enrollment from New York Independent System Operator (NYISO) demand response program participants and make it easier for customers to participate in the programs.

"Developing a solid demand response program is critically important for Con Edison and the overall New York metropolitan area," said Commission Chairman Garry Brown. *"Not only will these programs help reduce energy demand during peak summer months, it will help offset the need to make costly infrastructure investments and it will help promote environmental justice by reducing air emissions in communities and neighborhoods where power plants are located."*

The Commission has long-focused its demand response efforts in the metropolitan New York area where demand response is expected to be the most cost-effective. The area, served by Con Edison, experiences the greatest rate of peak load growth and the highest wholesale energy and capacity costs. The area also relies on numerous peaking generation units, some of which are relatively inefficient and produce high emissions.

The company's program revisions are intended to ease participation, streamline implementation, and better align Con Edison's demand response programs *(Cases 09-E-0115, 08-E-1463).*

NRG Astoria Power

The Commission in January 2011 granted approval to NRG Astoria Power LLC for the construction of a 1,040 MW electric generating facility to replace an existing 600 MW facility located at an industrial site in Long Island City, New York.

"This repowering project will replace older units with state-of-the-art combined cycle units operating primarily on natural gas," said Commission Chairman Garry Brown. *"The new units will provide reliability and environmental benefits, and will be significantly cleaner and more efficient than the existing units. In addition to increasing capacity in New York City, the project will create a total of 700 construction jobs, providing an economic boost to the local community."*

NRG Astoria is a subsidiary of NRG Energy, Inc. NRG is one of the three largest market-based sellers in New York City. After completion of the repowering, the size of NRG's New York City generation fleet will have grown by 440 MWs. NRG Astoria intends to develop, finance, construct and operate the project as a merchant developer without relying upon cost-of-service rates set by either a federal or state regulatory entity.

The power plant project will be constructed in two phases. NRG Astoria estimates that the total cost of the project would be approximately $1.4 billion. Roughly half of the cost would be spent during each phase. The company expects to finance each phase separately through a combination of debt and equity. The Commission also approved a lightened regulatory regime for the new facility and approved the proposed financing *(Case 10-E-0197).*

VI. RENEWABLE ENERGY

Metering Rules for Renewable Energy

The Commission in July 2010, approved changes to rules governing the state's major electric utility companies to eliminate the peak load limitation on the size of a non-residential customer's solar or wind electric generating equipment, pursuant to Chapter 7 of the 2010 Laws of New York. As a result of the change, businesses and farms in New York can now install larger-sized non-residential photovoltaic and wind electric generating systems.

"The expansion of the ability for businesses to install larger renewable energy devices is a major step forward in our quest to create a clean energy economy in New York," said Chairman Garry Brown. *"Renewable power systems reduce stress on the electric grid, allow consumers to offset rising energy costs, provide environmental benefits, and will help stimulate the creation of clean energy jobs in New York."*

The utilities' filings revised the requirement that non-residential customers, seeking to receive the benefit of net metering for solar or wind electric generating equipment, size their equipment at the lesser of 2 MW or the customer's peak load as measured over the prior 12-month period. Instead, customers may receive net metering if their generating equipment has a rated capacity of up to 2 MW regardless of their peak load. Previously, the limit was no more than the customer's highest historic peak usage during the previous 12 months.

The utilities also revised their tariffs to specify that in the case of a non-residential customer-generator who owns or operates solar or wind electric generating equipment with a rated capacity of more than 25 kW, the amount of the cost responsibility for equipment necessary for safety and adequacy of service shall be determined by the electric corporation, subject to review by the Commission upon the request of the customer.

The Commission's Standardized Interconnection Requirements were also modified to eliminate the peak load size limitation on a non-residential customer's solar or wind electric generating equipment, and revise the cost responsibility for dedicated transformer(s) or other equipment deemed necessary for safety and adequacy of service for non-residential customers who have a solar or wind electric generator with a rated capacity of over 25 kW *(Cases 10-E0133, 10-E-0134, 10-E-0135, 10-E0136, 10-E-0137, 10-E-0138).*

Expansion of Renewable Energy Program

The Commission took several actions in December 2010 to strengthen, expand and enhance its Renewable Portfolio Standard (RPS), the historic landmark initiative which encourages and supports the development of renewable energy projects in New York State.

"New York's renewable energy rules should be designed in a way that promotes simplicity and stability since developers of renewable generation projects face a myriad of risks in bringing their projects to commercial operation," said Commission Chairman Garry Brown. *"Today's action modifies the procurement process and eligibility requirements to reduce regulatory risk and complexity for developers. It will also enable more projects to participate in the program."*

The RPS program has been New York's primary policy initiative to promote development of new renewable energy resources since it was established in 2004. In December, 2009, the Commission expanded the RPS goal to increase the proportion of renewable electricity used by New Yorkers from 25 percent to 30 percent by 2015. RPS is one of the cornerstones of New York's objective of obtaining 45 percent of its electricity from clean energy sources by 2015.

The Commission specifically authorized the New York State Energy Research and Development Authority (NYSERDA) in its December 2010 decision to conduct future solicitations for RPS Main Tier resources once a year at a minimum, after consultation with and approval from staff of the Department of Public Service. Previously, a Commission order was required before NYSERDA could begin such a solicitation.

The Commission also eliminated a provision from the solicitation process that had prevented NYSERDA from considering the economic development benefits of existing New York-based renewable projects not already part of the RPS program that were put into service after January 1, 2003. Together, these actions enhance the ability of the solicitation process to respond in a timely manner to market opportunities and make it more likely that existing eligible renewable resources not already in the RPS program may be included in the future.

In addition, the Commission determined to allow clean wood, separated from construction and demolition debris at approved material reclamation facilities, to be eligible for use as a "biomass" resource fuel in the RPS program. The Commission's action is anticipated to increase production of renewable energy, reduce the need for fossil fuel and diminish the amount of clean wood sent to landfills.

Lastly, the Commission expanded its RPS rules regarding the eligibility of certain "behind-the-meter" energy transactions for RPS program incentives. A "behind-the-meter" transaction is one where the energy is supplied directly to the consumer and is consumed on the consumer's premises without ever passing through a utility or a public authority transmission or distribution system.

Prior to the December 2010 decision, "behind-the-meter" energy consumption did not qualify for Main Tier RPS program benefits primarily because of the lack of independent, verifiable or automated mechanism to measure the energy transaction. The Commission has expanded its RPS rules to include "behind-the-meter" transactions in

RPS, so long as the measurement and verification of the in-state energy consumption is performed in a manner that satisfies NYSERDA's reporting requirements *(Cases 03-E-0188, 09-E-0843, 10-E-0195).*

VII. SAFETY

LDCs Gas Safety Record Improves

Staff of the Department of Public Service (staff) presented its 2009 *Gas Safety Performance Measures Report* in June 2010 to the Commission examining the natural gas local distribution companies' (LDCs) performance in three areas pertaining to safety — damage prevention, emergency response, and leak management. In addition, staff made recommendations where performance improvements are needed.

"Overall, gas distribution companies' performance in 2009 not only improved over 2008, but also have shown continued and steady improvement since 2003," said Commission Chairman Garry Brown. *"These companies — which supply natural gas to millions of homes and businesses across New York State — deserve credit for ensuring necessary safeguards are in place to protect customers."*

Staff, in its report to the Commission, attributed continued progress in response to emergency situations to LDCs adopting more efficient work practices, utilization of new technologies to quickly identify the appropriate employee to respond to an emergency notification, public awareness initiatives, and placement of existing or additional personnel in certain geographical areas during the times of the day that historically have high volumes of calls reporting gas leaks or emergencies.

Incentive programs to reduce safety risks by replacing deteriorating and leak-prone infrastructure and/or reducing leak backlogs have been incorporated into past and current rate agreements for LDCs. Across the state, LDCs are collectively working to update the gas distribution infrastructure. In 2010, LDCs plan to replace more than 310 miles of leak-prone pipe in New York. This effort will improve public safety, and over time, will help reduce the leakage rates LDCs experience *(Case 10-G-0225).*

Electric Safety Standards

The Commission also received a report in June 2010 from staff of the Department of Public Service (staff) concerning electric utilities' compliance with electric safety standards. These standards were established by the Commission to help ensure the safety of the public from stray voltage and to enhance the reliability of the electric system in the State of New York.

"Electric safety standards remain an effective means to ensure the safe and reliable operation of the electric system," said Commission Chairman Garry Brown. *"The standards are comprehensive and provide for thorough testing of utilities' facilities that are most accessible to the public to identify and eliminate potentially*

harmful conditions before serious safety hazards and/or reliability deficiencies develop."

The Commission's statewide electric safety standards require that regulated electric utilities in the state annually test, either manually or with mobile-scanning equipment, publicly accessible electric transmission and distribution facilities for stray voltage, and all publicly accessible streetlights, whether they are owned by the utility or not. In addition, the utilities are also required to inspect all of their electric facilities at least once every five years.

After consideration of the comments received and staff's analysis of the 2009 test results, the Commission accepted staff's recommendation concerning mobile stray voltage scans in 2010 for cities with populations of 50,000 or more.

As noted by staff, utilities complied with the 100 percent inspection requirement over the last five years. Utilities achieved the target performance levels prescribed for stray voltage testing and facility inspection and did not incur any revenue adjustments under performance mechanisms. The utilities' performance demonstrates the Commission's continued national leadership in ensuring public safety in terms of monitoring, preventing and correcting incidences of stray voltage *(Case 10-E-0273, 10-E0271).*

Con Edison Ordered to Set Aside $1M for Customers

To resolve an outstanding enforcement issue, the Public Service Commission voted in July 2010 to direct Con Edison to establish a $1 million reserve account to be paid by the company's shareholders to customers due to the natural gas explosion that occurred in April 2009 in Floral Park, Queens, New York.

"This resolution of the penalty issues related to the alleged gas safety code violations obtains the maximum amount that the Commission could have obtained had it fully litigated a civil penalty action in this case," said Chairman Garry Brown. *"This decision is in the interest of ratepayers because it provides a direct benefit to ratepayers that could not be achieved under an enforcement action. Additionally, Con Edison continues to implement enhancements to the safety of its gas delivery system."*

The Commission decided to seek public comment as to how the money should be used to benefit customers. The Commission noted that Con Edison had experienced increased operation and maintenance expenses related to modifications of the company's gas safety procedures undertaken since the Floral Park explosion *(Case 10-G-0100, 09-G-0380).*

April is Dig Safety Month

The Commission announced that April 2011, is "Dig Safely Month" in New York State, as a way to remind excavators and contractors that state law requires them to call one of the state's toll-free one-call centers before starting any excavation or digging project.

Dig Safely New York and DigNet of New York City and Long Island are New York's nonprofit, one-call notification systems that help the general public and professional excavators obtain information on the location of underground facilities by simply dialing 811. More information about Dig Safely New York can be found at www.digsafelynewyork.com or by calling 315-437-7394. More information on 811, can be found at www.call811.com.

VIII. SMART GRID

PSC Smart Grid Proceeding

The Commission commenced a proceeding in July 2010, to take a hard look at developing cutting-edge regulatory policies that will be needed to encourage the development of the smart grid and the overall modernization of the electric grid.

"The smart grid and the modernization of the electric grid hold great potential for the state's ratepayers," said Commission Chairman Garry Brown. *"However, the Commission must be very thoughtful and deliberate before it decides whether to invest ratepayer money in the smart grid over the next decade. This proceeding will help us discover the opportunities and pitfalls that might exist."*

As a first-step in this critically important modernization effort, the Commission will solicit input from the public and industry as to how best to shape and build the electric grid of the future. In addition to comments from traditional utilities, the Commission is very eager to hear from the electric utilities, telecommunication companies, computer software and hardware providers, internet developers, consumer advocates and other interested parties as it moves forward with developing its smart grid technology road map.

During the course of the proceeding, the Commission is seeking input from a myriad of stakeholders concerning complex issues for developing a cost-effective and customer-friendly smart grid. Questions raised by the Commission for response include, among others: pace or timing for deployment of smart grid technology and replacement of aging electric delivery infrastructure; interoperability of smart grid devices and systems; cyber security strategy and requirements; cost-benefits analysis; customer data privacy and access matters; and consumer education *(Case 09-M-0074, 10-E-0285).*

NY's Smart Grid Projects Move Ahead

The Commission voted in October 2010, to grant Consolidated Edison Company of New York, Inc.'s (Con Edison) request to establish a surcharge to collect certain costs related to smart grid projects approved under the American Reinvestment and Recovery Act (ARRA) of 2009 by the Commission and the U.S. Department of

Energy (DOE). The Commission also voted to allow five other utilities to establish deferral mechanisms to collect the costs of approved ARRA projects in New York.

"The smart grid promises the deployment of new technologies that could help utilities become more efficient and help modernize the existing transmission and distribution grid," said Chairman Brown. *"The technological advances now becoming available will help utilities streamline and manage operations and will empower consumers with a greater ability to control electricity consumption and costs."*

As part of the ARRA initiative, the federal government will provide $392.5 million for several smart grid projects proposed by New York's utilities. Con Edison will receive the largest share of the award; its projects include $136.2 million for transmission and distribution projects under the DOE's smart grid investment grant program.

In compliance with the order authorizing recovery of stimulus project costs and subsequent to being notified by the DOE of the grants awarded, the six New York investor-owned electric utilities filed surcharge mechanisms to recover costs associated with projects approved by the DOE and the Commission *(Case 09-E-0310).*

IX. TELECOMMUNICATIONS

Greater Competitive Flexibility Considered for Verizon

The Commission in June 2010 began a process which could potentially lead to the adoption of a service quality improvement plan for Verizon, the state's largest wire-line telephone company, which would satisfy the Commission's core interest of protecting customers while at the same time allowing competition to set the level of service quality whenever possible.

"The ability of Verizon to retain existing customers and obtain new customers in a competitive market rest on a combination of factors, including its mix of service offerings, price and service quality," said Commission Chairman Garry Brown. *"While we continue to ensure adequate service quality, it appears that our service quality regulations have not kept pace with the level of competition in the telephone market. This proposed course of action will help assure adequate service quality protections for vulnerable customers who rely on Verizon's traditional wire-line service while giving Verizon flexibility to compete in the market."*

As part of the proceeding, suggestions would be sought as to possible changes to Commission regulations regarding the mandated time it takes for Verizon to repair certain customers' telephones. The change would provide additional flexibility to Verizon in its ability to manage its repair workforce and allow the company to focus on core customers *(Case 10-C-0202).*

Temporary Extension for Rural Phone Fund

The Commission voted July 2010 to adopt the terms of a Joint Proposal that extends transition funding support for basic local exchange telephone service in limited rural areas of New York State for an additional four months, at a cost of $600,000 spread over customers of other communications carriers throughout the state. The Joint Proposal also provides for schedules for the consideration of complex related issues in further phases of the Commission's Universal Service proceeding.

In recent years, New York has relied primarily upon technological developments and increased competition to keep telephone service prices affordable. The transition fund, which has now been extended, provides limited additional funding to local telephone companies in rural areas of New York if the local service rates (not to exceed $23 per month) are insufficient to meet their intrastate revenue requirement while maintaining reliable service.

This proceeding was instituted to examine universal service issues in August 2009, when it appeared that the transition fund might be exhausted in early 2011. Approval by the Commission of the first phase of the joint proposal in this proceeding provides for an additional $600,000 in carrier contributions for a four-month extension (from May 31, 2011, to September 30, 2011) of the currently projected exhaustion date of the transition fund *(Case 09-M-0527).*

Lifeline Awareness Week

The Public Service Commission, along with the New York State Consumer Protection Board and the New York State Office for the Aging, joined forces to promote programs that provide eligible New Yorkers with discounts for their primary residential or wireless telephone service. As part of the effort, Governor David A. Paterson joined states across the nation in proclaiming September 12-18 “Lifeline Awareness Week” to encourage enrollment in the Link-Up and Lifeline programs.

Under the Lifeline program, eligible landline customers receive a waiver of the federal subscriber line charge, a savings of at least $75 annually, and discounted monthly bills for basic local telephone service. The total discount varies depending on the local telephone service provider and the program includes some wireless and cellular service providers. The Link-Up program reduces the initial telephone connection charge by up to 50 percent, but not to exceed $30, for basic local service. More information is available at www.askpsc.com or www.lifeline.gov.

Verizon to Limit Distribution of White Pages

The Commission granted Verizon permission to provide residential white page directories only to customers upon request. The Commission's decision to ensure that residential white page directories are only sent to those customers who want them will reduce paper waste and improve the overall

In May 2010, Verizon requested a waiver of Commission regulations which currently require it to distribute a residential white pages directory to all customers in its service territory. In its petition, Verizon states that technological advances, such as the widespread availability and use of Internet directories as well as the personal directories contained in virtually all wireless and wireline handheld devices, have allowed consumers to become much less reliant on, or interested in receiving, large printed white page directories.

Verizon, the largest telephone company in New York with about 5.1 million lines, estimates that approximately 5,000 tons of paper per year could be saved, as well as the significant energy costs associated with printing and distributing much larger directories statewide, creating a significant environmental benefit and unburdening thousands of customers who have no need for a printed directory.

To ensure the success of the transition, and to assess the overall impact of the elimination of the residential portion of the directory white pages, Verizon will be required to provide quarterly status reports on the number of customer complaints it receives, as well as the number of customer requests it receives for the residential white pages, starting three months after initial distribution of new directories begins. The status reports will continue for one year after the streamlined directories are distributed. *(Case 10-C-0215).*

Verizon's Service Quality Plan Revised

The Commission in December 2010, approved Verizon New York Inc.'s (Verizon) revised Service Quality Improvement Plan (SQIP) to comply with the Commission's recent directive to focus service quality improvements on "core" customers — residential and business customers without competitive wireline alternatives and those on Lifeline or characterized as having special needs.

"In the recent past, we concluded that for many of Verizon's customers there was a diminishing need for regulatory action to ensure timely repairs due to the prevalence of competitive telecommunications alternatives," said Commission Chairman Garry Brown. *"Therefore, our action provides Verizon with the ability to focus on core customers to help assure adequate service quality protections for vulnerable customers or for those who rely exclusively on Verizon's traditional wireline service, while providing the company additional flexibility to compete."*

In recognition that the Commission's service quality regulations have not kept pace with the level of competition in the telephone market, the Commission required Verizon to file a revised SQIP consistent with its June 2010 Order (Case 10-C-0202).

The revised SQIP provides for identification of a group of core customers who either lack adequate access to competitive alternatives or are particularly vulnerable by reason of poverty, age, or disability; a plan for meeting timeliness-or-repair metrics for such core customers; and significant streamlining of service quality reporting requirements with respect to non-core customers.

The Commission in December 2010, strengthened Verizon's revised SQIP. If the company fails to meet timeliness of repair performance thresholds, a show cause order would be issued which would require Verizon to demonstrate why a penalty action should not be commenced by the Commission. The penalty provisions will become effective beginning March 2011 *(Cases 10-C-0201, 10-C-0017, 08-V-835).*

Verizon's Network Review Plan Completed

The Commission in February 2011 approved terminating Verizon's network review plan after the company was able to demonstrate that it had met the objectives of the plan relating to the residential installations of the company's fiber-to-the-premises (FiOS) systems.

The decision to terminate the network review plan came after evidence found Verizon fulfilled the requirements of the plan to obtain access to inspect and remediate past installations and consistently meet the grounding and bonding target for new installations.

Under the network review plan, Verizon committed to inspect all FiOS installations made prior to August 1, 2008, and remediate any problems discovered with those installations. It also agreed to inspect an ongoing sample of installations made on or after August 1, 2008, to ensure compliance with grounding and bonding requirements specified by the Commission and Verizon's methods and procedures. *(Case 08-V-0835).*

Telephone Company Commendations

The Commission announced March 2011, that it would issue letters of commendation to 48, out of a possible 71, local telephone companies or their operating divisions for providing excellent service to customers in 2010.

Most of New York's small incumbent local exchange carriers qualify for a commendation, as do most eligible competitive local exchange carriers. Also, Frontier Communications' Ogden Division, and Pattersonville Telephone Company will receive their 23rd consecutive commendation.

The Commendations for excellent service are based on telephone companies' performance in relation to service quality standards set by the Commission. The criteria used to grant a commendation for excellent service included an evaluation of customer trouble report rates (CTRR) and the number of consumer complaints received by the Commission.

This marks the 23rd year that the Commission has recognized companies for providing exemplary service. The 48 companies or operating divisions met the criteria for commendation for excellent service quality provided in 2010. A list of companies receiving commendations in available in *Case 10-C-0017*.

New York State Public Service Commission
3 Empire State Plaza
Albany │New York │12223
www.dps.ny.gov