

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on May 14, 2009

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman  
Patricia L. Acampora  
Maureen F. Harris  
Robert E. Curry, Jr.  
James L. Larocca, recused

CASE 08-M-1312 – Proceeding on Motion of the Commission to Consider the Financial Impacts on New York State’s Energy Utilities of Changes in Uncollectible Expense and Arrearages in the Current Economic Environment.

ORDER SPECIFYING CRITERIA FOR  
DEFERRAL OF COSTS

(Issued and Effective May 15, 2009)

BY THE COMMISSION:

BACKGROUND

On September 29, 2008, Department of Public Service Staff (Staff) convened a utility summit to discuss the impact of fuel costs and the weakening economy on the State’s most vulnerable customers. At that meeting, the State’s major energy utilities agreed to certain voluntary operational practices, applicable to residential accounts, for the cold weather period of November 1, 2008 through April 15, 2009, intended to help minimize winter terminations of residential gas and electric service to ensure health and safety. As the end of the winter heating season approached, Staff encouraged the utilities to take additional voluntary measures to inform both residential and non-residential customers of their rights and protections under the Home Energy Fair

Practices Act (HEFPA) and other related rules, and to manage the relatively large number of customers subject to service termination at the end of the heating season.

The utilities' voluntary actions have the potential to alter revenue arrearages, cash flow and uncollectible expense. Additionally, the general economic situation might precipitate an increase in the number of customers unable to pay their utility bills, which also has the potential to alter revenue arrearages, cash flow and uncollectible expense. Because these conditions might affect utility earnings, financial flexibility and access to capital markets on reasonable terms and conditions, this proceeding was commenced, in an Order Instituting Proceeding and Seeking Comments (Order Instituting Proceeding) issued December 16, 2008, for the purpose of developing appropriate ratemaking and accounting procedures to address these impacts.

As discussed in the Order Instituting Proceeding, a weak economy, high and volatile energy prices and uncertain financial markets created unusual and significant challenges for ratepayers and energy utilities, particularly during the 2008-2009 winter heating season. At the utility summit on September 29, 2008, the State's major energy utilities agreed to certain voluntary operational practices, applicable to residential accounts, for the cold weather period, November 1 through April 15. These temporary changes included: (1) accepting all Home Energy Assistance Program (HEAP) payments and offering fair and reasonable payment agreements to financially stressed customers; (2) extending additional protections to elderly, blind and disabled customers; (3) refraining from service terminations during periods of extreme cold weather; (4) expanding bill payment options; and (5) elevating as a priority consumer outreach and education about programs and services available to assist consumers. In general, the State's major energy utilities adopted similar measures in the past several heating seasons, although the financial impact of these initiatives may be greater this year than in past years. Incremental initiatives for the 2008-2009 winter heating season consisted principally of: (1) a new agreement by utilities to offer fair and reasonable Deferred Payment Agreements and accept regular and/or emergency HEAP payments for service applicants in addition to active customers, and (2) a new agreement by some utilities to

refrain from scheduling residential service terminations on days when the local weather forecast predicts temperatures below 32 degrees Fahrenheit rather than below 20 degrees Fahrenheit as in previous years.

As anticipated, the difficult economic conditions have been challenging for both customers and utilities. Through March 2009, the number of customers in arrears greater than 60 days is 7.5% higher than last year, and the associated dollar amount of arrearages is 19% higher than last year. Although final termination notices have increased 16% for this same time period, utility service terminations for the heating season are 4% less than last year, reflecting, in part the voluntary measures adopted by utilities.

In recognition of the large number of pending service terminations as the heating season came to a close, Staff asked the utilities to renew their efforts to inform both residential and non-residential customers of their rights and protections concerning energy service termination and reconnection, as well as potential payment assistance programs. Additionally, Staff requested that utilities consider affording customers facing service termination at the close of the winter heating season additional opportunities to pay utility bills before shutting off service. Such practices would provide welcome relief and flexibility for customers who do not presently have the financial resources to pay their energy bills. The general body of ratepayers would also benefit to the extent that this additional flexibility provides affected customers the opportunity to improve their financial circumstances and once again contribute to meeting utility costs, keeping the utility's pool of ratepayers as large as possible. Several utilities adopted these voluntary practices.

The Order Instituting Proceeding called for comments, due within 30 days of issuance of the Order, on appropriate ratemaking and accounting procedures that would address the financial impact of these factors on utilities. Parties were asked to identify possible rate mechanisms that could be instituted to provide relief to utilities, including: (1) quantifying and deferring the return that may be required on utilities' increased working capital needs due to higher than normal 2008-2009 arrearages and

uncollectible expense and (2) ways utilities might defer uncollectible expense in excess of the level reflected in current rates. Parties making proposals for cost recovery were instructed to take into consideration the need to minimize bill impacts.

Comments were also sought on the following criteria that we suggested might be required for approval of utility deferral proposals: (1) the utility must demonstrate that it is taking all required and voluntary actions to minimize service terminations, while continuing to pursue reasonable actions to minimize uncollectible expense; (2) the utility must demonstrate that its current rate plan mechanisms do not adequately address current working capital and uncollectible expense and that any recovery of costs provided as a result of this proceeding does not duplicate the current treatment of these costs; (3) the utility should demonstrate that any proposed additional mechanisms are appropriate and warranted given the terms and risks undertaken in its current rate plan; (4) the utility may not be in an overearnings position after any proposed deferral or additional relief; and (5) the additional amount to be recovered and the amount deferred should represent approximately 5% or more of net income on an after-tax basis.

Comments in response to the Order Instituting Proceeding were received from Central Hudson Gas & Electric Corporation (Central Hudson), Consolidated Edison Company of New York (Con Edison) and Orange & Rockland Utilities, Inc. (O&R) filing jointly, Corning Natural Gas Corporation (Corning), the National Grid utilities (Brooklyn Union Gas Company (National Grid NY), KeySpan Gas East Corporation (National Grid LI), and Niagara Mohawk Power Corporation (NMPC), collectively “National Grid”), National Fuel Gas Distribution Corporation (NFG) and New York State Electric & Gas (NYSEG) and Rochester Gas & Electric Corporation (RG&E) filing jointly. These comments are summarized in Appendix A.

In conformance with the State Administrative Procedure Act, a Notice of Proposed Rulemaking concerning this proceeding was published in the State Register on March 18, 2009. The SAPA §202(1) comment period expired on May 4, 2009. Multiple Intervenors (MI) submitted comments on April 30, 2009 and its comments are summarized in Appendix A.

DISCUSSION

The utilities provided numerous comments regarding the deferral mechanism proposed in the December 2008 Order. Their comments focus on the proposed conditions required before we grant deferral authority, which costs may be deferred, and the time period to which the proposed deferral mechanism applies.

Upon consideration of all comments, we authorize a one-time deferral. Each utility will have the opportunity to make a deferral filing subject to the following conditions: (1) amounts the utility seeks to defer must represent unrecovered incremental costs attributable to the voluntary actions requested by Staff related to the 2008-2009 winter heating season; and, (2) deferrable costs will include incremental uncollectibles, incremental working capital costs on arrearages, and incremental external costs directly related to outreach and education activities informing customers of payment options, programs available to assist customers during this period, and customers' rights and protections.

Utilities retain the opportunity to file petitions for deferral of costs, including incremental uncollectible expense unrelated to the voluntary measures.<sup>1</sup> Traditionally, we require that deferral accounting requests meet the following three conditions: (1) a demonstration that the subject costs are incremental to the related amounts reflected in current rates, (2) the amount to be deferred must be material to the utility's earnings and extraordinary in nature,<sup>2</sup> and (3) the utility cannot be over-earning. These traditional criteria for cost deferral provide sufficient protection for utilities and aid in setting just and reasonable rates.

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<sup>1</sup> On February 12, 2009, Central Hudson filed such a petition requesting authority to defer increased bad debt expenses, in Case 09-M-0140, Petition of Central Hudson Gas & Electric Corporation for the Authority to Defer Bad Debt Net Write-off Expense for the Year Ended 12/31/08.

<sup>2</sup> In a recent case we explained material and extraordinary as an expense exceeding 3-5% of net income, depending on the circumstances. This threshold is consistent with the Uniform System of Accounts for Natural Gas Companies Part 201.7, which defines an extraordinary item as more than approximately 5% of income. Case 07-G-1411, Order Denying Deferral (issued March 27, 2008).

Deferral Conditions and Applicability

Several utilities assert that the proposed standards for cost deferral should be relaxed substantially, and that we should permit deferral and recovery of a wide range of costs attributable to the economic downturn. For example, National Grid asserts that the deferral criteria set forth in the Order Instituting Proceeding are too restrictive to offer meaningful rate relief. NFG asserts that the proposed deferral conditions amount to the same criteria currently applicable to all utility deferral petitions. Corning and Con Edison suggest that the proposed conditions might be more stringent than those imposed on utilities seeking traditional deferral authority. NFG opposes applying the proposed standards to incremental expenses arising out of the voluntary measures requested by Staff, and suggests that we allow utilities to recover any costs incurred as a result of implementing those measures. All utilities argue that the proposed materiality threshold, 5% of net after-tax income, is too restrictive.

Several utilities, including NFG and Con Edison, claim that the deferral conditions specified in the Order provide a disincentive for utilities to comply with the identified voluntary actions intended to assist vulnerable customers. NFG and others argue that these criteria will have the effect of penalizing utilities for their cooperation with Staff.

We are persuaded that our traditional criteria for evaluating deferral requests should not be applied to the incremental costs of the voluntary measures identified in this Order. We agree that utilities should not be penalized for their cooperation. In providing additional voluntary assistance to vulnerable customers at Staff's request, utilities likely have incurred, and will likely continue to incur, incremental costs. These costs include increased working capital requirements, uncollectible expense and outreach expenditures. We conclude that utilities should be permitted to defer reasonable, documented uncollectible expense and working capital costs attributable to the voluntary measures identified herein, subject to the requirement that they are not recovered elsewhere in rates. Such costs may be attributable to either voluntary measures newly adopted for the 2008 – 2009 winter heating season, or to

incremental costs incurred during this winter heating season, attributable to voluntary measures continued from past winter heating seasons.

In addition to uncollectible and working capital costs, utilities may also request deferral of reasonable incremental external costs directly related to outreach and education activities to inform customers of payment options, assistance programs and their rights and protections. National Grid argues that we should allow recovery for increased expenditures on collection activity because the activity assists in minimizing uncollectible expense, thus benefiting utility ratepayers. Because the primary beneficiary of the increased collections activity is the Company itself, we do not consider increased collection activity costs related to the voluntary measures sought by Staff to assist customers, and we will not consider requests for deferral of such costs in this proceeding.

We recognize that adoption of the voluntary measures has, for many utilities, resulted in fewer residential service terminations during the 2008 – 2009 winter heating season than in the prior year, despite an increase in the number of accounts subject to termination. Accordingly, Staff has encouraged utilities to consider the individual circumstances of customers subject to immediate termination at the close of the winter heating season. Staff has encouraged the utilities to work with those customers, providing them with additional time to develop the means to continue paying for utility service, now that heating expense -- the largest portion of most residential energy bills -- is minimized.

At the behest of Governor Paterson, Staff has also asked utilities to expand their efforts to inform residential and non-residential customers of their rights and protections concerning service termination, as well as potential payment assistance programs.<sup>3</sup> These initiatives benefit customers currently lacking the ability to pay their energy bills, by providing needed information and flexibility in avoiding service termination. These measures benefit ratepayers in general, because some short-run

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<sup>3</sup> For example, the Office of Temporary and Disability Assistance reports that both emergency and regular HEAP payments are available past the end of the winter heating season, until May 15, 2009.

assistance may enable the affected customers to continue as contributing members of the pool of ratepayers over the long-term. Continuing to spread a utility's revenue requirement across the broadest possible pool of ratepayers keeps the contribution required of each individual ratepayer as low as possible. Therefore, we will permit deferral of reasonable, unrecovered, incremental working capital requirements, reasonable incremental uncollectible expense and reasonable incremental external costs of outreach and education activities, incurred between April 15 and June 30, 2009, upon a demonstration that the additional voluntary measures were adopted by the utility and that the incremental costs are attributable to these additional voluntary measures.

The following guidelines apply to the measurement and quantification of incremental costs. Incremental uncollectibles expense shall mean the incremental net write-offs of the accounts that benefited from the voluntary measures attributable to the 2008-2009 winter heating season. Incremental working capital costs for the increase in uncollectibles and arrears attributable to the 2008-2009 winter heating season period shall mean the calculation of the average balance of arrears on accounts that benefited from the voluntary measures multiplied by a utility's rate of return.

Utilities retain the opportunity to file requests for deferral of extraordinary expenses subject to our traditional criteria for expenses not specifically described above, such as incremental uncollectible expense not associated with the voluntary measures. Regarding such expenses, our concern remains ensuring the continued financial health of the utilities most affected by increases in arrears and uncollectible expense. Our intent was not to make utilities immune to the financial downturn, indeed, in its comments, NFG noted that the Order Instituting Proceeding "properly makes no such proposal." After reviewing all the comments from utilities, we are convinced that deferral authority subject to our traditional conditions sufficiently protects utility cash flow, earnings and access to capital.

Period for Which Deferral of Costs May Be Sought

Several utilities assert that we should not limit deferral of costs in this proceeding to the 2008-2009 winter heating season. Con Edison claims that limiting deferral to costs incurred during this period ignores the fact that, due to the current economic crisis, uncollectibles began to rise prior to this period and, Con Edison asserts, will continue to rise after the winter heating season ends. NYSEG and RG&E suggest a longer period, October 1, 2008 – May 31, 2009. Central Hudson seeks clarification as to what time period the winter heating season includes, and notes that many customers carried arrearages from the summer months into the winter heating season. National Grid contends that due to the continuing and increasing weakness in the economy, expanding any proposed relief beyond the 2008-2009 heating season should be explored.

We reiterate that we established this proceeding specifically to determine whether special ratemaking procedures are necessary to deal with the potential additional financial strain of increased arrears and uncollectibles expense due to the peak seasonal energy use for winter heating and the additional costs arising from the voluntary actions undertaken during the November 1, 2008 – April 15, 2009 winter heating season. As discussed above, we recognized that the adoption of the voluntary measures has contributed to a higher than usual number of potential service terminations immediately following the close of the winter heating season. Consequently, Staff asked the utilities to expand their outreach and education efforts and provide customers with further opportunities to develop solutions before terminating service. Therefore, we will permit utilities deferral of reasonable, unrecovered, incremental working capital requirements, reasonable incremental uncollectible expense and reasonable incremental external costs of outreach and education activities, incurred between April 15 and June 30, 2009, upon a demonstration that the additional voluntary measures were adopted by the utility, and that the incremental costs are attributable to these additional voluntary measures. Concerning residential service terminations, we expect that utilities will continue to transition, through June 30, 2009, from the voluntary measures taken during the heating season to their long standing historical practices. To the extent a utility adopts residential service

termination practices that are more stringent and provide less protection to customers than its historical practices, such changes and the associated effect on the utility's costs will be considered in our review of its deferral petition.

Central Hudson sought clarification regarding whether this proceeding addresses uncollectibles actually written off as bad debt during the winter heating season, or uncollectibles written off later, but resulting from customer usage during the winter heating season. The uncollectibles addressed in this proceeding are those resulting from customer usage during the 2008 - 2009 winter heating season. Once again, we note that utilities retain the opportunity to file a traditional petition for authority to defer extraordinary expenses not recovered here.

#### Other Issues

Some utilities voiced concern that actual bad debt write-offs for the 2008-2009 winter heating season will not be known until later in calendar year 2009, and in some cases, not until early in calendar year 2010. Thus, the utilities cannot presently quantify the costs addressed here. We appreciate this logistical difficulty, and therefore do not require an immediate filing to obtain the relief outlined in this Order. Once each utility quantifies these costs, the utility may then file a petition requesting deferral authority. The utilities should include supporting documentation with such petitions. We will consider each petition individually to determine whether the authority requested is reasonable and in accordance with the conditions set forth in this Order.

The Order Instituting Proceeding envisioned our consideration of the utilities' deferral requests within approximately 90 days. Upon review of the filed comments, the potential complexities in calculating the costs to which deferral under this Order applies, and the necessary examination of significant volumes of documentation, we no longer anticipate that all filings can be considered within such an abbreviated period of review. Nonetheless, our desire to act quickly on the anticipated deferral requests continues, and we therefore direct Staff to review such filings as expeditiously as possible.

In response to our invitation, some utilities proposed specific mechanisms and amortization periods for the recovery of costs deferred as a result of this proceeding.<sup>4</sup> We decline to address these proposals at this time. In general, these matters are best considered in the context of each utility's specific circumstances, and will instead be considered on a case by case basis if and when each utility submits its petition for deferral authority allowed under this Order.

Several utilities proposed alternative ratemaking procedures, including reconciliation mechanisms allowing recovery of actual uncollectible expense and working capital impacts, thus reducing the utilities' exposure to variance in actual uncollectible expense from the amount recovered in rates. We choose not to adopt those proposals in this proceeding. Many of the proposed mechanisms were highly company specific, and thus not appropriately addressed in a generic proceeding such as this. Additionally, in setting a utility's rates, we consider the business risks a utility faces in setting the allowed rate of return. The utilities' presently allowed rates of return do not reflect the reduced business risk such reconciliations would provide.

MI argues that, should we allow recovery for increased uncollectible expense and arrearages, we should refrain from creating or exacerbating interclass subsidies between customer types or service classifications. In this Order, we are not actually approving deferral authority, nor are we establishing any specific recovery mechanisms. Therefore, we decline to address MI's recommendation at this time. When we evaluate utilities' individual petitions seeking deferral authority and recovery, which may be filed as a consequence of this Order, we will consider MI's concerns.

### CONCLUSION

We will allow a one-time deferral of the unrecovered incremental costs attributable to the specified voluntary actions that the utilities undertook during the 2008-

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<sup>4</sup> For example, NFG suggests that utilities seek recovery of deferred costs in an appropriate rate proceeding, while National Grid proposes that its constituent utilities recover particular deferred costs through various existing adjustment clauses.

2009 winter heating season and immediately thereafter. We will not subject such petitions for deferral to our traditional materiality or over-earnings conditions because the utilities incurred these incremental costs through voluntarily complying with Staff initiatives. We will allow deferral of the following costs, not already recovered through rates: (1) incremental uncollectibles; (2) increased working capital costs on arrearages resulting from such actions; and, (3) incremental external costs directly related to outreach and education activities informing customers of payment options, programs available to assist customers during this period, and customers' rights and protections. Each utility seeking deferral authority must make a filing, and identify the actual incremental costs resulting from the voluntary actions identified in this Order. Due to the timing of account collections and write offs to revenues billed during this specified period, we expect that the utilities will not be able to make such a filing until at least the fall of 2009.

The Commission orders:

1. Subject to the conditions set forth in this Order, each utility that undertook one or more voluntary measures, identified in the body of this order for the 2008-2009 winter heating season, may make one request for deferral of incremental costs resulting from those measures, as delineated in the body of this Order.
2. Recognizing that the monetary amounts for which deferral would be sought are not yet known, and that each utility utilizes different time periods before uncollectibles are written off, each utility making such a deferral request shall do so at the earliest possible date once such expenses are quantifiable.
3. This proceeding is continued.

By the Commission,

(SIGNED)

JACLYN A. BRILLING  
Secretary

ANALYSIS OF COMMENTSCentral HudsonA. Background:

Central Hudson reports that its current Rate Plan established fixed electric and gas rate allowances of .51% electric and .92% gas for delivery and commodity uncollectible expense, based on historical bad debt experience, through December 2005. Given the current economic conditions, however, the Company believes there is still significant financial exposure to utilities in that commodity and delivery collections may be insufficient to cover actual bad debt write-offs.

For instance, the Company states that it has seen a 28% increase over December 2007 in the number of accounts with balances more than 120 days in arrears and a 64% increase over December 2006. It continues, noting that the dollar amount of balances over 120 days old increased by \$2.4 million, or 58%, during 2008. The Company reports that during 2008, it wrote-off over \$6.6 million of its accounts receivable balances, which exceeded the amount it recovered through rates by over \$1.8 million. The Company expects that, applying the current uncollectible allowances, the Company's 2009 budgeted revenue will result in a shortfall of \$2.2 million. In its current rate case proceeding, the Company is proposing to continue similar treatment of the uncollectible expense allowance factors using updated percentages, but with deferral treatment on the variance between the actual bad debt experience and what is recovered in rates.

B. Voluntary Actions Taken by Central Hudson:

The Company reports that it is accepting all HEAP payments and ensures that customers receive all benefits to which they are entitled. Central Hudson states that it provides special protections for customer accounts with an identification code of elderly, blind or disabled, and refrains from locking accounts during periods of extreme weather. Central Hudson states that it has continued its annual winter outreach plan, informing customers about payment options, programs and services available for assistance. The Company states that

it has implemented its annual Essential Service Apparatus Program, installing load limiters that ensure sufficient electricity for basic heating, lighting, refrigeration and cooking needs in lieu of locking residential accounts for non-payment.

Central Hudson reports that it is utilizing unexpended funds from the Enhanced Powerful Opportunity Program (EPOP) to offer a supplemental benefit of \$200 or \$300 to eligible low-income customers. The Company notes that accepting Staff's recommendations each year has had a negative impact on its accounts receivable and increased its bad debt expense.

C. Central Hudson's Comments on the Commission's Proposal:

Central Hudson seeks clarification of three issues. First, the Company asks what dates define the 2008-2009 winter heating season, the Company believes this to mean November 1, 2008 – March 31, 2009. Second, the Company asks whether the Order is considering (1) actual net bad debt write-offs during the specified time frame, or (2) the actual net bad debt write-offs, occurring later, but resulting from customer usage during this time frame. Third, Central Hudson is unclear as to how exactly to determine if the uncollectible expense is specifically related to the winter period. The Company notes that many customers are carrying arrearages into the winter months from the summer months, and seeks these clarifications to help in its current consideration of a petition for ordinary deferral authority for calendar year 2008 bad debt expense.

The Company can demonstrate that uncollectible expense recoveries allowed under the current rate plan have not been adequate to recover the actual net bad debt. During 2008, the Company estimates a shortfall of more than \$1.8 million. Commission authorization to provide deferral treatment for future recovery of that shortfall would provide the necessary relief.

Central Hudson maintains that relief in the form of deferral treatment is warranted. Central Hudson maintains that, while the Order specifies a materiality threshold of 5% of net income, the Commission has typically applied a 3-5% of net income materiality threshold.

Without further clarification, the Company believes it is premature to address specific rate mechanisms. Central Hudson states that it has available electric deferred credit balances that could be used to record the deferrals against, and suggests that a special interim delivery rate surcharge mechanisms could be employed to recover additional uncollectible expense, above what is currently provided for in rates.

#### Con Edison and O&R

##### A. Background:

Con Edison reports that its 2008 uncollectible expense is \$7 million more than its rate allowance. O&R reports that its 2008 uncollectible expense is \$100,000 more than its rate allowance of \$3.1 million. Con Edison states that its residential 60-day arrears increased by 20%, or \$39 million, representing 11%, or 43,000, more customers in arrears between December 2007 and December 2008. In that same interval, O&R reports that its residential 60 day arrears increased 36%, or \$1.7 million, representing 20%, or 2,600, more customers in arrears. Between 2007 and 2008, Con Edison reports experiencing a 20% increase between 2007 and 2008 in the number of payment agreements, representing an increase of 34%, or \$18.9 million, at risk under these agreements. Similarly, O&R reports an increase of 36% in the volume of payment agreements, and an increase of 41%, or \$2 million, in the amount at risk.

Con Edison and O&R report that they are attempting to mitigate these increases through a number of measures, including adding staff to their bill collection department to maintain continued customer payment of utility bills. The Companies report that efforts to mitigate the rise in uncollectibles have also resulted in increased expenses. The Companies state that they are working hard to balance decreasing uncollectibles while aiding customers in need, but increasing number of customers need support.

##### B. Voluntary and Required Actions Taken by Con Edison and O&R:

Con Edison and O&R state that they are accepting all HEAP payments, including accepting HEAP payments as a down payment for a Deferred

Payment Agreement (DPA), providing customers with the opportunity to enter into DPAs and referring customers to Social Services for additional assistance. The Companies further state that they are not terminating service to elderly, blind or disabled customers, and to all residential customers during extreme cold weather periods. The Companies state that refraining from residential terminations has benefited many customers and that the Companies' efforts will result in additional costs which cannot yet be estimated.

C. Comments on the Commission's Proposal:

The Companies state that the five conditions described in the Order are similar to, if not more stringent than, those traditionally imposed upon a utility filing a petition to defer extraordinary expenses. For instance, the Companies state that the proposed requirements not only impose additional conditions for deferral, but the Companies argue, requiring the utility to prove that it balanced the need to aid vulnerable customers while lowering the level of arrears and uncollectibles is both difficult to achieve and prove. The Companies state that a decrease in the level of service terminations will lead to an increase in the amount of arrearages, and ultimately uncollectibles. The Companies believe that the Order does not provide a clear rationale for the added requirements.

The Order limits the recovery of uncollectible costs to a specified time frame, the winter period 2008-2009. The Companies argue that this ignores the fact that uncollectibles began rising prior to winter 2008-2009. They continue, stating that the Order does not provide sufficient relief for these continuing costs after that time period, nor does it address the likelihood that any uncollectible write-offs for winter 2008-2009 will not actually occur until late summer 2009 at the earliest. The Companies report that any prediction of the amount of uncollectibles for winter 2008-2009 is premature until a much later point in time. The Companies believe that providing utilities with currently available relief, without relaxing the traditional tests, does not address the disincentive for utilities to take actions to aid customers that are likely to increase their uncollectible expenses.

D. Con Edison and O&R's Alternative Proposals:

Con Edison and O&R argue that the Commission should implement accounting mechanisms that will provide utilities with assured relief for the increase in uncollectible costs. They suggest that this should be done through an adjustment mechanism or annual reconciliation of uncollectible costs compared to the amount currently allowed in rates. The Companies state that these mechanisms would not limit the recovery of these costs to the 2008-2009 winter period as suggested by the Commission. They believe that a monthly adjustment mechanism would permit real time recovery of incremental costs for uncollectibles above the level included in rates. They explain that the annual reconciliation mechanism would compare the level allowed in rates to actual expenditures for uncollectibles as well as costs associated with uncollectibles. The Companies argue that these mechanisms would ensure full and timely recovery of incremental costs associated with utility initiatives and proactive customer-focused efforts, removing any disincentives utilities may have to increase uncollectible expenses. Additionally, the Companies argue that the Commission should consider establishing an incentive program, such as targets and rewards for achieving specific participation levels in payment programs.

Corning

A. Background:

Corning reports that it is a small utility whose revenues can be largely affected by swings in arrears and uncollectibles. Corning states that employment changes at the few major employers in the area, such as layoffs, have a ripple effect on arrearages and uncollectibles as these changes directly impact their utility customers. Additionally, Corning reports that it has substantial financial exposure because its delivery and commodity uncollectible expenses are bundled; it recovers both through a fixed base rate cost estimate.

Corning reports filing deferral petitions in the past to deal with the unpredictable nature of uncollectibles. Corning states that the deferral process tends to be without a regular schedule or process designed to yield results within a

certain period of time and can be improved substantially by utilizing a more standard, uniform approach. Corning is in the midst of a gas rate case (08-G-1137), and expects that its comments here will be largely transferable to the rate case. Corning anticipates that the “final” mechanism for addressing 2008-09 winter period arrearages and uncollectible expense will be formulated in the rate case, based on the results of this proceeding.

B. Corning’s comments on the Commission’s Proposal:

Corning argues that the conditions proposed in the Order need to be modified or eliminated, or it and other utilities will be in a worse position under the new approach than if the current approach were continued. Corning states that the first condition, taking actions to minimize service terminations while simultaneously minimizing uncollectible expenses, imposes an evidentiary burden on the utility to demonstrate that it is achieving a perfect balance between avoiding shut-offs and collecting what is due. Corning continues, arguing that demonstrating this each time deferral of uncollectible expenses is requested, when little is likely to change from year to year, seems to be an inefficient use of resources and would be more appropriately conducted in the context of an audit or in a rate proceeding.

Corning believes the second condition, that any recovery authorized in this proceeding not duplicate current rate treatment, represents a valid concern which would be easily demonstrated by showing the computation of the overage versus the amount currently allowed in rates. Similarly, Corning believes the fourth condition, requiring that the Company not be in an overearnings position after any proposed deferral or additional relief, is reasonable and consistent with Commission practice.

Corning understands the third condition to mean that the utility must show that it deserves to be protected from a certain amount of risk if a proposal for deferral of uncollectible expense is to be entertained. Corning believes this to be a vague requirement that would be either impossible to satisfy or conducive to mischief in its application. Furthermore, Corning believes the third condition is

unnecessary, as there are no rate plans that eliminate all risk or even reduce it substantially. Corning remains subject to a number of risks that exceed the risk inherent in uncollectible expense. Corning states that the greatest risk, perhaps, is customer usage, particularly for large industrial, commercial and institutional customers. If there is a specific concern about the need for protection from the risk of inaccurate allowances for uncollectible expense, Corning suggests that issue should be raised in response to a company's individual filing.

Corning believes the fifth condition, imposing a materiality threshold of 5%, is unnecessarily restrictive. Corning argues that it is at the upper end of the 3-5% range that the Commission recently cited, and involves "threshold creep" inconsistent with what Corning states was the Commission's definitive discussion, less than one year ago, of the materiality threshold for deferrals in Case 07-G-1411. Corning would prefer to see the threshold set at 1% of net income after taxes, but in the interest of consistency and predictability, the threshold should be stated as no higher than 3%. Corning believes that this is warranted as uncollectible expenses are an especially uncontrollable expense, and no matter how rigorously the Company has attempted to project arrearages and uncollectible expense, these costs usually exceed the projected amounts.

C. Alternative Proposal in Corning's Current Rate Case:

In Corning's current rate case, it reports proposing a deferral and recovery mechanism that, beginning with the first year in which the mechanism takes effect and continuing each year thereafter, compares the actual uncollectible expense, both delivery and commodity, for the twelve months ending August 31 with the amount allowed in rates. If the actual amount exceeds the allowed amount by more than 1% of net income on an after-tax basis, Corning proposes to recover the entire amount of the overage. Corning further proposes unbundling the delivery and commodity portions of the uncollectible expense. Corning proposes including the deferred commodity portion in its annual Gas Adjustment Clause reconciliation, and recovering the deferred delivery portion in its next rate proceeding. Corning also seeks a return on working capital corresponding to the

amount deferred for the commodity and delivery portions until full recovery. Corning believes that by using time periods consistent with the current GAC reconciliation mechanism, its proposal provides a regular schedule for addressing uncollectible expense issues, as well as a degree of efficiency by combining filings. Corning believes recovery of uncollectible expenses incurred over a one-year period should occur over a like period, to avoid a build-up of expenses requiring recovery. However, it continues, providing for delayed commencement of recovery of deferred delivery uncollectible expense serves the interest of minimizing bill impacts by spreading the recovery over more than one year.

#### National Grid

##### A. Background:

National Grid believes that special rate or deferral mechanisms are warranted as it reports the percentage of accounts more than 60 days in arrears as higher by 4.49% to 17.43% in November 2008, compared to November 2007.<sup>1</sup> In an effort to minimize uncollectible expense, the Companies state that they have pledged shareholder contributions to the Care & Share and Neighborhood Fuel Funds, implemented a telephone and direct mail campaign to encourage eligible customers to apply for HEAP, and implemented a customer management protocol, which monitors customer payment patterns and intervenes before arrears become overwhelming. National Grid is also increasing collections calls and field collection activity. Notwithstanding these efforts, the Companies' arrearages continue to rise.

##### B. Voluntary and Required Actions Taken by National Grid:

National Grid states that its constituent utilities (the Companies) are accepting regular and/or emergency HEAP grants and offering financially stressed customers fair and reasonable deferred payment agreements. The Companies report refraining from scheduling service terminations on days when the weather

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<sup>1</sup> National Grid's Joint Comments state "Comparing November 2008 to November 2007, the Companies are seeing accounts in more than 60 day arrears higher by from 4.49% to 17.43%." "From" was treated as a typographical error.

is forecast to be at or below 32 degrees, and continuing voluntary moratoriums on winter terminations for the elderly, blind and disabled.

The Companies report expanding outreach and education programs, which provide information on energy saving tips, billing options, energy efficiency programs and programs targeted to low-income customers. Downstate, National Grid NY & LI support “On Track” programs and upstate NMPC administers the “AffordAbility” program. These programs educate customers on arrears management and provides for certain arrears forgiveness. The Companies have also provided training and tools to their customer service representatives to prepare them for customer high-bill inquiry conversations and have specially trained representatives to assist those customers that are the most vulnerable.

C. National Grid’s Comments on the Commission’s Proposal:

National Grid notes that the Order appears to limit proposed deferrals to the current heating season, yet it is difficult even for the experts to predict when the economy will improve. They argue continuation of one or more of the deferral mechanisms beyond the current heating season may be warranted.

The Companies believe the materiality condition is too restrictive, arguing that the Commission should be open to tailoring the relief and the conditions for recovery based on the specific recovery mechanism and circumstances of each utility. They state that incremental costs of items such as commodity-related uncollectible expense and working capital, the uncollectible expense rate and the cost of bad debt mitigation measures may not rise to the 5% materiality threshold, which National Grid believes is at the high end of the Commission’s precedents regarding other deferrals. National Grid states that, in the aggregate, these increased costs may detrimentally affect the Companies’ reasonable access to capital markets. National Grid suggests that, if the Commission decides to hold to this materiality threshold, it should permit the aggregation of the incremental costs driven by these factors.

D. National Grid's Alternative Proposals:

The Companies state that they have engaged in bad debt mitigation efforts, which are over and above the Companies' rate allowances for collection costs by nearly \$8 million in the first year. The Companies believe these accelerated efforts will redound to the benefit of the Companies' customers, and therefore urge the Commission to allow recovery of these incremental costs through the same rate mechanism as the incremental uncollectible expense.

National Grid states that none of its constituent companies' rate plans address increased working capital needs associated with higher customer arrearages. National Grid explains that National Grid NY and National Grid LI's rate plans provide relief for increased working capital requirements resulting from higher gas costs, but that NMPC currently operates under gas and electric plans that do not adjust to increased purchased gas/electricity working capital requirements as a result of higher gas or electricity costs. National Grid proposes that NMPC be permitted to defer incremental, commodity-related working capital costs for its gas business until new gas rates go into effect, and for its electric business until such time the Commission determines. Regarding National Grid NY, National Grid LI and NMPC gas, National Grid suggests that these costs be recovered through their GAC/MCG statements in the normal course of reconciliation, subject to amortization over two reconciliation periods as necessary to mitigate bill impacts. National Grid further suggests that NMPC electric recover these costs through the CTC reset.

National Grid states that each of its utilities is subject to fixed uncollectible expense rates that were determined prior to the current economic turmoil. National Grid argues that NMPC is at a substantially higher risk in that it still recovers commodity-related uncollectible expenses through a fixed rate allowance. National Grid proposes that the Companies be permitted to defer uncollectible expense in excess of the uncollectible expense provided for in their respective rate plans. National Grid suggests that NMPC electric recover such costs through its CTC reset while NMPC gas, National Grid NY and National Grid

LI recover these costs through a mechanism that applies on an equitable basis to the Companies' sales and transportation customers, such as a delivery rate surcharge. National Grid explains that it is sensitive to concerns regarding bill impacts, but recommends that the amortization period for this and other proposed deferrals be no more than two years.

### NFG

NFG limited its comments to a discussion of the Commission's proposed criteria. NFG maintains that, while the Commission fairly acknowledges that utilities should be recognized for adopting the voluntary measures sought by Staff, the Order improperly denies recovery of costs arising from those measures unless the utilities can show they are "materially" harmed. NFG understands that utilities cannot expect to be made immune to financial downturns, thus NFG states that it does not oppose the application of the traditional threshold standard for deferral of uncollectible expense increases due to high natural gas prices, a weakened economy, and uncertain financial markets. However, NFG argues, this standard should not apply to requests for deferral of higher costs arising from the voluntary measures the utilities adopted at Staff's request. NFG states that in discussions leading to the Order, while staff did not state that recovery of higher uncollectible costs would be guaranteed, recovery was not ruled out. NFG explains that it reasonably believed it would be protected from such incremental costs out of a sense of fair play.

NFG argues that although the Order seeks rate mechanisms to assist utilities who undertook the requested voluntary measures, the conditions proposed in the Order amount to the deferral authority ordinarily available to utilities. NFG explains that although it is too early to estimate an increase attributable solely to the measures, an increase is inevitable, and, absent deferral authority, some amount of uncollectible expense will be absorbed by shareholders. NFG does not believe the increase in uncollectible accounts expense will rise to the 5% materiality threshold proposed in the order. NFG claims that setting a 5% threshold will likely have the effect of penalizing utilities for cooperating with

Staff and the Commission. NFG states that deferral of uncollectible accounts expense not resulting from the voluntary measures should be granted upon a showing by the utility that meets the standard conditions for deferred expense accounting. NFG suggests that for costs incurred from the voluntary measures, the Commission adopt a procedure summarily authorizing deferral, subject to Staff's review and audit in a subsequent rate (or other suitable) proceeding.

### NYSEG and RG&E

#### A. Background:

NYSEG and RG&E report experiencing a continued increase in uncollectible expense. Comparing net uncollectible expense in calendar year 2007 and 2008, RG&E reports a 70% increase in net uncollectible expense, while NYSEG reports a 10% increase. The Companies also claim that accounts with arrears greater than 120 days are increasing at an alarming rate, which has created a serious cash flow burden. The Companies state that despite their efforts to control uncollectible amounts, those amounts continue to increase, and are exacerbated by the voluntary actions the Companies have taken to benefit customers. The Companies maintain that the increase in uncollectible amounts continues to negatively impact earnings, cash flow and financial flexibility.

Currently, the Companies recover delivery uncollectible expense through a fixed amount built into delivery rates, based on four or five year averages of historical net write-offs. The Companies have commodity uncollectible expense recovery mechanisms, which either allow for an adjustment (electric businesses), or an adjustment and reconciliation (gas businesses). Additionally, the Companies report that they purchase accounts receivable from Energy Service Companies at a discount to compensate for uncollectible costs. The Companies state that both their discounts are adjusted annually, NYSEG's based on one year historical experience, including a .15% adder to compensate for risks of increasing uncollectible costs, and RG&E's based on a five year rolling average. The Companies maintain that the amount allowed for uncollectible expense in 2008 rates through these mechanisms does not come close to

accommodating their actual expense. The companies explain that they lack true-ups or reconciliation mechanisms for the difference between delivery uncollectible rate allowances and actual costs, and that the methodologies in place to adjust supply uncollectible expenses are based on historical assumptions that are no longer valid given the current economic crisis.

**B. Voluntary and Required Actions Taken by NYSEG and RG&E:**

The Companies report that they are accepting all HEAP payments and will consider using HEAP as a down payment for customers requiring a deferred payment agreement. The Companies state that they refrain from service terminations when the temperature is below 20 degrees, take into account forecasted storms, and have extended additional protections to elderly, blind and disabled customers. The Companies report training collections personnel regarding these measures.

The Companies state that they are offering payment agreements to financially stressed customers, expanding bill payment options, and offering incentive opportunities for customers who enroll in budget billing and/or electronic funds transfer. The Companies report developing a Matching Incentive Payment Program, providing grants and matching funds to eligible customers facing disconnection. The Companies have also increased funding for Project Share and RG&E/Red Cross Heating Funds.

The Companies report engaging in outreach and education, providing information on available bill payment options, using energy wisely, commodity prices, managing heating bills, budget billing and other financial coping strategies. The Companies report placing door hangers to remind customers to pay their bills, and making calls to customers who are behind on their bills and in danger of service termination.

**C. NYSEG and RG&E's Comments on the Commission's Proposal:**

The Companies opine that the materiality threshold of 5% of net income on an after-tax basis suggested in the Order is too high. The Companies suggest the Commission instead adopt the 0.05% of common equity standard,

found in 16 NYCRR section 48.1, to allow for recovery of additional uncollectible expense. The Companies further note that their proposals, outlined below, would void the need for a materiality threshold.

D. NYSEG and RG&E's Alternative Proposal:

The Companies suggest that they be allowed a reconciliation of anticipated and actual uncollectible expense. They maintain that their proposals are warranted because their current rate plans were developed in a different economic climate and neither they nor the Commission were able to anticipate the current economic crisis. They state that their proposals will not duplicate recovery of costs nor cause the Companies to be in an overearnings situation.

The Companies propose that for electric and gas delivery service, uncollectible expense embedded in the existing delivery rates be reconciled to actual uncollectible expense experienced by the Companies for October 1, 2008 – May 31, 2009 via a fully symmetrical true-up. Noting the lag between provision of service and an account becoming uncollectible, the Companies suggest the true-up calculation be based on a detailed filing submitted by the Companies in September 2009. The Companies suggest the true-up would be accomplished through a credit or surcharge immediately following the September 2009 filing.

For electric supply service, the Companies propose a reconciliation from projected uncollectible expense to actual supply-related uncollectible expense. The Companies suggest that upon making their proposed September 2009 filing, they be authorized to recover the reconciliation amount from supply customers via a surcharge mechanism, as part of the overall reset of the supply cost recovery mechanisms or by adding to or subtracting from the Public Benefit Adjustment balances created as part of the recent merger proceeding.

Multiple Intervenors

MI states that it does not advocate any positions on most of the issues identified in the Order Instituting Proceeding. MI notes that it does not oppose the adoption of temporary measures to protect the financial integrity of utilities and ease financial burdens on customers. However, MI urges the Commission to

refrain from creating, or exacerbating, interclass subsidies by ensuring that any allowed deferrals be calculated, and recovered, in a manner specific to customer type or service classification.

According to MI, historically, electric and gas utilities experience much lower percentages of uncollectible expense and arrearages in serving large non-residential customers than in serving residential and small non-residential customers. MI asserts that this difference impacts the cost to serve various customer classes, and thus rate treatment for uncollectible expense and arrearages typically differs between customer type or service classification. MI argues that large non-residential customers should not be forced to pay for any increased uncollectible expense associated with residential or small non-residential customers, nor should such customers be burdened by any increased uncollectible expense associated with large non-residential customers.