STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE
PUBLIC SERVICE COMMISSION

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In the Matter of
CASE 12-E-0201

A Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service.

CASE 12-G-0202

A Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid Gas Services.

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January 8, 2013
9:50 a.m.

Empire State Plaza
Agency Building 3, 3rd Floor
Albany, New York 12223-1350

STENOGRAPHIC RECORD of a Hearing in the above-entitled matters pursuant to notice.

BEFORE: RUDY STEGEMOELLER, Administrative Law Judge
PAUL AGRESTA, Administrative Law Judge

APPEARANCES:

For National Grid:
CATHERINE L. NESSER, ESQ., Vice President and General Counsel
KERI SWEET-ZAVAGLIA
PATRICK O'BRIEN
STEVE CANNALINO
PAM DiBIANO
KEN DiMARIE

For the Department of Public Service:
JANE CICERANI, ESQ
DAKIN LECAKES, ESQ.

WITNESSES FOR THE DEPARTMENT OF PUBLIC SERVICE

Christopher L. Graves, ORE
Kwaky Duah, OA&F
Allison Esposito
Denise Gerbsch
Michael J. Rieder
Leonard Silverstein
Richard E. Schuler, Jr.

Multiple Intervenors

COUCH, WHITE

MICHAEL MAGER, ESQ.
M. J. GOODMAN, ESQ.

USHER FOGEL, ESQ.,
Retail Energy Supply Association

Department of State, Utility Intervention Unit

SAUL A. RIGBERG, ESQ.

WITNESSES FOR NATIONAL GRID

James M. Molloy
David Doxsee
Kellie Smith
Pamela Dise
Allen Chieco

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P R O C E E D I N G S

ALJ STEGEMOELLER: Good morning. I apologize for the slight delay. I also apologize for the warm temperature in the room. Hopefully, it is going to get better; we called the grounds people.

This is Case 12-E-0201 and 12-G-0202, investigations of the Public Service Commission into the rates of Niagara Mohawk for electric and gas. The first thing we will do is take appearances from counsel.

MS. NESSER: Good morning, Your Honors. For the Company, I am Catherine Nesser. With me is Keri Sweet, Patrick O'Brien, Ken DiMarie, Steve Cannalino, and Pam DiBiano.

MS. CICERANI: For the Department of Public Service, Jane Cicerani and Dakin Lecakes.

MR. MAGER: Good morning. For the Multiple Intervenors from Couch, White, Mike Mager and M. J. Goodman.

MR. RIGBERG: For the Utility Intervention Unit of the Department, Saul A. Rigberg.

JUDGE STEGEMOELLER: Thank you. I am Rudy Stegemoeller, and joining me is Paul Agresta.

We have already run through preliminaries while we were off the record, so we will just proceed straight to impaneling the witnesses. Would Counsel for Staff and Counsel for the Company introduce the witnesses? On the telephone is Usher Fogel for the New York --

MR. FOGEL: Your Honor, I'm just going to keep my phone on mute so there is no outside interference. I'm listening in, and I will just pop in whenever I think I have got to.

JUDGE STEGEMOELLER: Okay, thank you. I guess since you are not sponsoring testimony, you don't need to -- We need to have the witnesses give their names and business affiliation, and then we can swear them in. Let's start with Mr. Schuler.

MR. SCHULER: Yes. Richard E. Schuler, Jr., with the Office of Regulatory Economics of the Department of Public Service.

MR. SILVERSTEIN: Leonard Silverstein, also Consumer Policy, Department of Public Service.

MR. RIEDER: Michael J. Rieder, Office of Electric, Gas, and Water, Department of Public Service.

MS. GERBSCH: Denise A. Gerbsch, Office of Accounting and Finance, DPS.

MS. ESPOSITO: Allison Esposito, Office of Accounting and Finance, DPS.

MR. DUAH: Kwaky Duah, Office of Accounting and Finance, Financial Analyst.

MR. GRAVES: Christopher L. Graves, Office of Regulatory Economics, Department of Public Service.

MR. CHIECO: Allen Chieco, Network Strategy, National Grid.

MS. DISE: Pamela Dise, Regulation and Pricing, National Grid.

MS. SMITH: Kellie Smith, Regulation and Pricing, National Grid.

MR. DOXSEE: Dave Doxsee, National Grid.

MR. MOLLOY: James M. Molloy, Regulation and Pricing, National Grid.

ALJ STEGEMOELLER: Thank you. We will do a mass swearing here: Do you promise to tell the truth? Please say yes.

(The witnesses, called before the Commission, and being duly sworn by the ALJ testified as follows)

ALJ STEGEMOELLER: Very good. We can

proceed with our questions. My first question, I think is for counsel. I just need to clarify that the Appendix A to the Company's Statement of Support which, I believe, is the Joint Response from Staff and the Company, I'm sure I missed it but I didn't see it anywhere in the Company's filing that actually said that. So, I just need to confirm with staff that you also sponsor that appendix.

MS. CICERANI: That's correct, Your Honor. It's a joint response.

ALJ AGRESTA: Thank you. We also have that listed on the exhibit list as a Joint Response.

ALJ STEGEMOELLER: The first issue that we have is the ESCO Collaborative. The first question I would like Staff and/or the Company to clarify is exactly what is in the agreement as opposed to what you have testified to and what you intend to pursue in a Collaborative, specifically with respect to inclusion of price comparisons on customer bills and provision of information of payment-troubled customers. I don't know which one of you wants to go first. The question is: Can you clarify what was agreed to in the Joint

Proposal.

MS. NESSER: I can start, Your Honor. I'll give it a shot. I'm not looking at the language at the moment. But, what was agreed to in the Joint Proposal from the Company's perspective is that there will be a bill calculator that assists residential customers with knowing what they would have paid in comparison to what they would pay with an ESCO and what they would pay if they stayed with the Company. Staff, in their testimony, made proposals for various other communication tools, some to troubled customers, some to low income customers. The Company agreed with those recommendations. But, in the Joint Proposal all that is being committed to is that there will be a bill calculator and the other materials will be discussed in the context of the Collaborative.

MS. CICERANI: Your Honors, I would agree with that, with the further understanding that the Joint Proposal includes $298,000 for that process and that $298,000 was designed to cover more than just the bill calculator. It includes more than that; it includes those other pieces. But the agreement is not specific as to that.

ALJ STEGEMOELLER: Thank you. Will the product of the collaborative be something that the Company can implement without further Commission approval, or do you envision submitting -- I guess more generally, what process do you envision coming out of the Collaborative?

MR. RIGBERG: This is Saul Rigberg. My understanding is a little different from Counsel for the Company and Staff. Our understanding is based on the rebuttal testimony of the Company which it agreed to Staff's proposals that three items would be discussed in the Collaborative. The one was: Information regarding price comparisons would be printed on the monthly consolidated bills. There would be a web-based historical utility bill calculator, and the information would also be printed on termination and DPA, default notices. And the $298,000 that the Company said it would cost to do those things is the amount of money that is agreed upon as the threshold amount in the Collaborative. So, it is our understanding that all three items would be discussed in the Collaborative.

As regarding your second question, we would view the report as a compliance filing that would not require SAPA notification. If not all parties agreed with where on the bill this information would be placed or the size of the font or something like that, the Commission could -- there could be a process to consider that dispute. But we wouldn't view this filing as requiring SAPA.

ALJ STEGEMOELLER: Thank you. Are there any other comments on that?

MR. FOGEL: Do you want to hear me or from Staff and the Company as to what they envision as the process. I don't know if I agree or disagree with what Saul just said.

ALJ STEGEMOELLER: I'm sorry. Say that again.

MR. FOGEL: I don't know if I agree or disagree with what Saul just said, but I didn't want to jump ahead until the Company and Staff indicated how that they view the process here.

ALJ AGRESTA: When are you going to know whether you agree or disagree?

MR. FOGEL: Well, let me give you my spiel and then you folks can tell me. In terms of what was in the settlement agreement and what the parties have agreed to, I think I am in accord with what Cathy and Jane just said; that is, there is agreement that there will be a bill calculator. The rest of the items that were discussed in the testimony of Staff and the rebuttal testimony of the Company would be covered in this Collaborative. That is, they would be discussed, because the settlement agreement makes reference to the term "other materials," including possibly stuff that would include non-ESCO customers. Those would be discussed. There is no prior agreement that I or anybody else has to agree to those particular items.

In addition, I do agree with Jane that the $298,000 covers items besides the bill calculator. I have no problem with that. And, as I understood it, the Collaborative will meet. I believe that the first meeting has already been scheduled. The result of that will be a report that goes to the Commission. I don't know if that is a compliance filing. There will be a report to describe what the outcome of that Collaborative may be. The Collaborative may reach consensus; it may not reach consensus. The people will agree or disagree, and that report either by inclusion of the disagreement in the report or other parties, that will then go to the Commission. That is my understanding of both what we have agreed to and what the process is.

ALJ STEGEMOELLER: Thank you. Can we hear from --

ALJ AGRESTA: I didn't hear a disagreement between Saul and the description that Cathy gave; is that correct, Cathy?

MS. NESSER: I didn't hear disagreement.

ALJ AGRESTA: All right. We will have to reconcile this.

MR. RIEDER: Your Honor, do you want Staff's counsel's opinion on the process?

ALJ STEGEMOELLER: If you have anything to add.

MS. CICERANI: No. I'm pretty much in agreement. Obviously, if there is disagreement at the end of the Collaborative, there needs to be further process so those parties have the opportunity to say something. But I don't believe that is inconsistent with what has been said here.

ALJ STEGEMOELLER: Thank you. Before we leave this issue, I have a question that is probably most pertinent to Mr. Fogel but could apply to anybody. We anticipate significant

Commissioner interest in this. And, one possible question might be: Well, why can't we just order that this information be included in bills and to the payment-troubled customers regardless of what the Joint Proposal says. I wouldn't rule out that possibility as far as Commissioner questions or what they might want to do. So, given that as a possibility, I would like to give the opportunity to the parties to address that either right now or in a follow-up written submission.

So, Mr. Fogel, you are going to be leaving us and Mr. Rigberg is going to be leaving us as soon as we are done with this issue. We will talk more generally at the end of this hearing about what follow-up written briefing might be needed, but I want to cover this one now. Do you think that there is any -- would you like an opportunity to respond to that possibility and present arguments for why or why not the Commission ought to, on its own motion, go ahead and require those measures?

MR. FOGEL: The only thing I have a problem with, Your Honor, my understanding is what happened to the joint settlement. Theoretically, this concern of yours could be with respect to myriads of issues in the settlement agreement, ESCO-related stuff that shouldn't be viewed as the tail wagging the dog. There are a lot of big issues in this case. But, theoretically, the Commission may decide to go a different way. And the question would become, well -- I guess where I'm confused, isn't that necessarily in the nature of going through a settlement in that there is disagreement or lack of agreement on any particular issue. It doesn't have to be mine. And the parties say: Here's the way we are going to resolve it, through a settlement process. So, we are not precluding the Commission from doing something subsequently. As I see it, it's indeed a Collaborative that has to be done in short order. There will be a report to the Commission and the Commission is, obviously, free to do what it wants. So, I don't know at this time, besides laying out the whole substantive case which I think is what we looked at in the Collaborative, to say, well, you know, Commission, if you want to do something else, here's reasons why you shouldn't do it and here's why the settlement makes sense. That's why I am a little bit confused and maybe just a little bit ambivalent.

ALJ AGRESTA: Mr. Fogel, are you saying that you are opposed to printing the information on the bills or printing the information on terminations and defaults? Couldn't the Collaborative just be a way to figure out how to do that as opposed to --

MR. FOGEL: I have serious substance problems with including this stuff on the monthly bill.

ALJ AGRESTA: Then, I think we want to give you an opportunity, in case the Commissioners want to move ahead, to be heard.

ALJ STEGEMOELLER: Right. There is no testimony in the record or no exhibit in the record that counters the arguments put forward by UIU and adopted -- agreed to by Staff and the Company.

MR. FOGEL: I just put something out in the form of a letter or supplement, or whatever we can decide. But, then, I'm sure other people who disagree with me are going to want to respond. Then, I'm going to have it litigated with the Commission when I thought I had a settlement agreement. I don't think that's fair.

ALJ STEGEMOELLER: It's the nature of

our process. We don't hand the Commission a fait accompli. The Commission wants to have some input. And, where we as ALJs anticipate an issue that we think the Commission is going to be concerned about, we want to develop as full a record as we can. We don't want to go to the Commission and say: You can't do that because we don't have a record for it. That's why I want to give you the opportunity to address this issue if you choose to.

MR. FOGEL: I'm just making some comments, Your Honor. I'm perfectly comfortable doing that, but it just seems that all I'm going to start up now is a briefing schedule and, pardon the expression, stub my own foot because, who knows, I mean I have a Collaborative. I thought that was appropriate for the Collaborative. That's why I am very confused. I can submit comments. I can have them to you in twenty-four hours.

ALJ STEGEMOELLER: Great. We can give you a lot more than twenty-four hours, but we will decide at the end of the hearing what sort of schedule we will put forth. I'm sure at least seven days will be available, and I don't anticipate that we would be entertaining replies. So, why don't we follow up with an e-mail after the hearing.

MR. FOGEL: Okay. Just one more thing, Your Honor. If you wants something from me -- and I understand you like to see my brilliant writing all the time -- it will be in the form of a letter like I did the Statement of Cause. Will that be sufficient?

ALJ STEGEMOELLER: Yes. This would be in the nature of argument.

MR. FOGEL: Okay, fine. Brilliant argument.

ALJ STEGEMOELLER: I always anticipate brilliant argument from you.

Does anyone have anything else to add on this issue before we move on?

(No response noted)

ALJ STEGEMOELLER: Okay. Thank you, Mr. Fogel. I think we are done with that issue. So if you are finished with us, then we will disconnect the phone.

MR. FOGEL: I'm done, Your Honors. Again, thank you very much for accommodating my position.

ALJ STEGEMOELLER: You're very welcome. We will send an e-mail around after the hearing about dates for paper.

MR. FOGEL: Bye-bye.

(Mr. Fogel and Mr Rigberg exited the hearing)

ALJ STEGEMOELLER: Let's go off the record for a second.

(A discussion was held off the record. Time noted: 10:15 a.m.)

ALJ STEGEMOELLER: We are back on the record.

ALJ AGRESTA: Do the panelists have the questions that the ALJs posed in writing a few days ago before them?

(Affirmative response)

ALJ AGRESTA: Okay. We are going to talk about an issue that we've called stay-out premium. There is a table that I prepared to try to illustrate how the clawback provision would be applied, and I prepared the table based on the simple language that was in the Joint Proposal. So, I would like first for the parties to address whether this table accurately illustrates how the provision would be applied.

MR. MOLLOY: I think the table actually works the way the provision is written. I think the first column is probably right. After that, it goes astray. But we did produce something very similar to what we had in the Gas Joint Proposal when it was an exhibit there that we can hand out and show you how we envision it and calculate it.

ALJ AGRESTA: I guess it would be easier if before people answered they could just give their name.

MS. GERBSCH: Denise Gerbsch, Staff. The intent of the provision for the stay-out premium that you are referring to was to be more in line with the previous gas case, Case 08-G-0609, and the provision that was in there. And, the example that is on the sheet of paper that we are handing out portrays what the intent of this provision was.

MS. SWEET-ZAVAGLIA: May I approach?

ALJ AGRESTA: Please.

(Distribution of document marked as Exhibit 464 for identification)

ALJ STEGEMOELLER: Can you send this to us electronically when we are finished here so that we can add this to our exhibits?

MS. SWEET-ZAVAGLIA: Yes.

ALJ AGRESTA: I have marked the document that we have been handed, which is a one-page document marked as Exhibit 464 for identification. Is someone going to take us through this?

MR. MOLLOY: Yes, I can. Basically, we did two examples, one assuming that the company files for rates to go into effect in October of 2014. And, that would be basically one year plus another six months. And, so, for the first year we would get back all of the premiums, the $10.1 million for electric and $2.7 million for the gas. And, then, we would give six months worth of credit for the period between April 1st and September 2014.

The second example is the exact same, except now, it goes out one more year, so it's 2.5 years. And, we would get back the premium for the first year, the second year, and six months of the third year.

ALJ AGRESTA: All right. So, maybe you can help me through this, then. In your first example you are talking about a length of rate plan that is one and a half years; is that right?

MR. MOLLOY: That is correct.

ALJ AGRESTA: And, the customers would have at that point paid in rates on the electric side $15.15 million?

MR. MOLLOY: 15.092, and we would be returning that as a credit.

ALJ AGRESTA: Okay. How do you get .092?

MR. MOLLOY: Because of the weighting of the months. The revenues come in differently, so it's not a fifty/fifty.

ALJ AGRESTA: Okay. And, then, the refund in this instance would be how much, electric only?

MR. MOLLOY: Electric would be $15,092,000.

ALJ AGRESTA: So, the net customer cost would be zero?

MR. MOLLOY: Yes.

ALJ AGRESTA: And, the Company cost would be zero, so this seems to line up with the table that I handed out; right?

MS. GERBSCH: No, I don't think so, Your Honor.

ALJ AGRESTA: What is different? Other than the 15.15 and the 15.09?

MS. GERBSCH: As we understood your question as it was provided is that it worked in the inverse.

MR. MOLLOY: A good example would be the two and a half year, at 2.5 years which is example two, the company -- the customers have paid in the $27 million and we pay them back $27 million. In your chart here, it doesn't look that way.

ALJ AGRESTA: Yes, correct, because in my chart you would only be paying them back five million dollars.

MS. GERBSCH: Right. And that was not the intent. The intent was that if the Company came in within the three years, they would have to pay back to the customers the entire amount of the stay-out premium that they were given in the rates.

ALJ AGRESTA: Okay. Could somebody hazard, then, a restatement of the sentence that is in the Joint Proposal to capture what was intended?

MS. GERBSCH: We went back and looked at the previous gas case, and the language in there is probably more representative of what we would need to put in here. I don't have that with me right now.

ALJ AGRESTA: I did look at that, and I think that language does clearly state what you are now saying is your intent in this Joint Proposal.

MS. GERBSCH: Right.

ALJ AGRESTA: So, I would like you to hazard a chance at that language. But is the intent, basically, that all monies that had been paid just get refunded?

MR. MOLLOY: Yes.

MS. GERBSCH: Yes.

ALJ AGRESTA: So, it doesn't matter when. Whatever has been paid to date gets refunded at that time?

MS. GERBSCH: That's correct.

ALJ STEGEMOELLER: Other than this clawback mechanism, are there any constraints in the Joint Proposal against the company filing early? I shouldn't say early. I should say filing for rates that would take effect before the end of Rate Year 3.

MR. MOLLOY: There is no other provision.

ALJ STEGEMOELLER: I guess my question,

then, is in how we are characterizing this. I will just read the question I gave you before. "Would it be accurate to call the premium an inducement to stay out rather than compensation for risk"?

MR. MOLLOY: I'm not sure I see a difference between those two statements. It seems to be the same thing to me.

MS. GERBSCH: I believe Staff would agree with that. We think it's both.

ALJ STEGEMOELLER: Well, my understanding is that -- a commitment to stay out entails a certain amount of risk that there will be a rate fluctuation in interest rates or some other change in circumstances that would otherwise induce the Company to come in for rates but it can't, and that risk is rewarded with a risk premium which is part of a stay-out agreement. And, in this situation, the Company doesn't bear those risks because if the circumstances change, the Company can simply come back in and simply return the premium. So, it is --

ALJ AGRESTA: Presumably, when they return the premium, they will get an even higher amount back when the rates are reset, which is why there is no risk.

MS. GERBSCH: Well, there isn't a provision in there detailing the circumstances under which they could come back in. I believe it is Staff's expectation that they would not come back in unless there were some dire financial circumstance.

MR. MOLLOY: I think I would agree with the Company's perspective on this. It wouldn't be worth it. It's too much risk in a rate case generally to try to get a couple of basis points here and there. It has to be something big.

ALJ AGRESTA: Who would define "dire circumstance"? Would it be defined by the Company who makes the decision?

MR. MOLLOY: I would guess the Company would make the filing, obviously.

MS. GERBSCH: I would just like to make one other point. In the last gas case in which the same provision was in there, the Company -- I don't have the exact returns with me. But they were significantly under-earning from where they are allowed. It was in between five and six percent in some years. And, they didn't come back in at that point while they certainly had the availabilities to do that.

ALJ AGRESTA: If they had come in at that point, do you think they would have been given a higher rate allowance than they currently had?

MS. GERBSCH: I don't know. We would have had to analyze the filing that they presented.

ALJ AGRESTA: Were interest rates dropping during that period?

MR. RIEDER: Your Honor, that would be one aspect of the entire filing, but other aspects other than interest rates would be looked at as well.

ALJ AGRESTA: But interest rates were dropping during that period?

MS. GERBSCH: I believe interest rates were going down, yes.

ALJ AGRESTA: All right. Mr. Molloy, did we get the language?

MR. MOLLOY: I'm sorry. I didn't find it yet, no.

MS. CICERANI: Your Honor, you might want to move on to another one. We are going to get the gas Joint Proposal so we get the exact language you are talking about. Or you might want to take a break; I don't know.

ALJ STEGEMOELLER: Let's move on to another issue, and we can get that language in when it comes.

The next thing we would like to talk about are major storm issues. For those of you who might not have seen it, the Governor's Moreland Act Commission filed an interim report at the end of the day yesterday. One of the Governor's other commissions, the NYS-2100, there was a draft report which has not been formally released but has been reported in the press. This is an issue that is certain to get a fair amount of Commissioner interest. So, we have a number of questions we would like to ask.

The first one is: To what extent can items that are currently in the electric infrastructure plan that is being adopted here, to what extent can those items be called storm hardening initiatives, or whatever words you want to use?

MR. CHIECO: Allen Chieco, National Grid. There is actually a great deal in the Joint Proposal and in the work plan in regards to storm resiliency, hardening. I think it starts with our -- actually the State's inspection and maintenance program providing value to ensure that we are looking at our operations on a five-year basis and doing corrections to the facilities accordingly based on the visual inspections. We have a very strong tree trimming program in the plan that we stay on approximately -- I think it's a five-and-a-half year cycle. And, obviously, trimming is a major part of any other major storm event. We believe that is an excellent cycle.

In the plan also is side-tap fusing, which would limit interruptions to customers, so that instead of large numbers of customers being interrupted, the more tap fusing we do would reduce the number of customers potentially interrupted by an outage.

ALJ STEGEMOELLER: Is that a new initiative or an increase in the application of side-tap fusing?

MR. CHIECO: Increasing the application. Additionally, in the plan are numerous rebuilds of whether it would be our transmission or sub-transmission or distribution facilities. Any time that you can do a rebuild you are strengthening your system. We have been discussing with Public Service Staff other opportunities in regards to storm hardening, and we will be doing some work out of this plan in regards to three specific feeders in areas that have historically not performed well in storm events and working on mechanisms to work on those.

We annually do a worst feeder review on our worst performing feeders and look for corrections to resolve all of these issues and find better service.

One of the items from Hurricane Irene that we continue to work on is flood-prone substation areas. We try to make sure that when we do any design work in the substation for any type of rebuild or work in a substation that in flood-prone areas we look at mitigation to help remedy a situation that we may be in there.

One of the last things I would like to mention is in this plan, there is a lot of -- or several new transformer banks for distribution customers. And, I think what really provides is if an area does become affected by a storm it provides an opportunity to do more switching to try to restore more customers because we will have the capacity to do so.

ALJ STEGEMOELLER: Thank you. It seems -- it is certainly possible in the wake of Sandy, and the various commissions that are reporting, that it's certainly possible that within the time frame of this rate plan there could be some new, major initiatives, infrastructure initiatives either at the order of the Commission or possibly at the initiative of the Company in response to the Governor's commissions, or -- there is no point in speculating about exactly what form these initiatives might take. But the question is: Is this rate plan equipped to handle -- equipped to address the cost to the Company of potential major initiatives that might occur within the next three years? I mean there would be planning, obviously, and potentially capital investments, or O&M. How does this Joint Proposal handle a situation like that?

MR. MOLLOY: I see the Joint Proposal handling it in several different ways. I think first, the capital plan has the ability to walk in and out of projects. So that to the extent that within our current budget we can handle it and move things in and out of the capital plan. If that's not possible, we think there is a provision on regulatory legislative changes that will permit deferral for the particular changes. And, finally, I think that in any other particular order associated with maybe new storm costs it could be addressed in that particular docket as well.

ALJ AGRESTA: Where is the regulatory language?

MR. RIEDER: It's Appendix 7, page two of 19 Section 1.2.2.

ALJ AGRESTA: Does it include Commission initiatives?

MS. GERBSCH: Yes, it does.

MR. RIEDER: Instead of legislative or regulatory.

ALJ AGRESTA: By "regulatory" it doesn't mean hard rules, if counsel wants to address that?

MR. LeCAKES: From Staff's perspective, it could refer to orders, commission initiatives sponsored through orders or directives to companies, not just hard rules.

ALJ STEGEMOELLER: I'm just wondering whether the $8.8 million we call that a cushion margin -- no, it's not a margin -- might create a deterrent to the company supposing -- we are in hypothetical land here, which is not a good place, not where we want to be asking questions if we can help it. But I don't want to get into a situation where the Commission wants to do something and the answer is: Well, the Joint Proposal is going to get in the way of that. You know, if the Commission orders companies to devise a plan for upgrading, more aggressive storm hardening -- whatever it might be called -- and the Company, you know, can devise a plan within the context of this rate plan and use walk-in walk-out or other changes. But if a company -- if this plan were to entail a lot of expense beyond what is in the rate plan, then you would have the $8.8 million per year. Is that something that would create a deterrent to the Company to put forward an aggressive plan?

MR. CHIECO: I think the Company is committed to providing proper storm response to the New York State customers. And I believe the Joint Proposal provides us with the ability to manage through prioritization changing our priorities accordingly based on the state's guidance. So, I believe that we would be all for enhancing our service. Specifically, you know, I think staff has already had some discussions with us in regards to the types of things that we could do to storm harden and to enhance our system. To date, all of the discussions have been very good. And I also believe that there is recognition that there are certain things that are going to make sense and certain things would not be adding as much value. So, based on the discussions we have had to date with staff, my belief is that the work would be appropriate and that the Company would move forward with that work accordingly. And, most likely, we would be able to move some things around to enhance it. So, if it was an extreme amount of money, I think that would change things. But I think we are in favor of providing an enhanced storm response and resiliency.

MR. RIEDER: So, from Staff's perspective, if the Company moves things around within their capital budget, they could do so and the $8.8 million wouldn't be a deterrent for them because they could do that. As Mr. Chieco said, if the costs were more than $8.8 million or substantial, then the provision in the Joint Proposal would apply. So, as far as Staff's perspective, is that there is no deterrent from the Joint Proposal for them to do any kind of storm hard hardening that may come down.

ALJ AGRESTA: You are saying that the $8 million is not big enough to be a deterrent?

MR. RIEDER: That's right.

ALJ AGRESTA: Thank you.

ALJ STEGEMOELLER: The SAIFI and CAIDI do not apply to major storm events, as I read it; correct? Is there any performance metric that applies to major storm recovery?

MR. CHIECO: No, there is no metric that applies to major storm recovery.

MR. RIEDER: Your Honor, as you are aware, what has happened typically prior to Sandy, any type of storm restoration, that is, from a major storm, Staff has investigated and submits a report to the Commission regarding the utilities' performance during the restoration.

ALJ STEGEMOELLER: Okay. Again, I don't know how many of you have had a chance to look at the Moreland Act report that was issued at the end of the day yesterday. But, one of its recommendations is that the Commission take a more enforcement-oriented approach to major storm performance by the companies including higher penalties. And, again, we don't want to get too speculative about what form a new initiative might take. If that interim recommendation holds, and if the Commission were to follow up on it and take a more, let's say, aggressive approach to -- I should say take a penalty-oriented approach to a company's performance in preparing for and recovering from storms, that would, I think, add a significant level of risk to the company. And I guess my question is: How would this Joint Proposal accommodate a development like that, if at all? If you want to take a couple of minutes -- yes, let's go off the record.

(A discussion was held off the record. Time noted 10:45 a.m.)

MS. NESSER: The simple response is that it does not increase penalty authority as demonstrated in the Moreland Commission's interim report, nor does it cause any other potential finding of the Moreland Commission. And this is an example of an extraordinary event that, if it came to pass, where the Company may have no choice but to go in and file another rate case to recover its prospective costs and forfeit the premium.

ALJ STEGEMOELLER: Does staff have anything to add to that?

MR. LECAKES: I would like some clarification as to what the judges are looking for. Are you looking for the initiatives that the Company would undertake on its own or legislative regulatory mandated changes, because I think those are covered in a couple of different ways.

ALJ STEGEMOELLER: I guess what we are looking for is, again, we are trying to anticipate something that the Commission might do during the course of this rate plan and wondering whether the existence of this rate plan would either inhibit the Commission from taking an action like that -- you know, ordering some new storm response penalty regime -- or whether the Commission in ordering that, is going to disrupt the rate plan in some way. And is there a mechanism in the rate plan to accommodate that or, if not, what would happen. As Ms. Nesser said, well, if it's dramatic enough it might provoke the Company to come back in.

MR. LECAKES: As far as Staff's perspective, there are a number of clauses that are put into these agreements that are often considered boiler plates that are overlooked and not really given much weight but exist for a reason. Clause 13.8 specifically recognizes the Commission's authority where at the end of the paragraph it says, "Nothing in this Joint Proposal will be construed to limit the Commission's authority to address the Company's customer service, reliability, and/or safety measures in accordance with the Public Service Law." The Commission has a mandate to make sure that the utilities provide safe and adequate service. To the extent that the Moreland Commission or any other outside body believes the Commission should take more action with regard to storm restoration efforts, the Commission does have that right under its State law mandate as well as through the provision of 13.8 to enact those changes. To the extent that such changes require the Company to look at its circumstances financially and otherwise and make a weighted decision about whether it should pay back the penalty for filing rates early, I mean that's something that the Company has to make, knowing full well the effect of that financial provision about paying back the clawback for the stay-out premium as well as any other intangible results that filing early might have, you know, in regard to its relationship with the regulators and the position that those people that will have to judge the filing might take having an agreement in place. In other words, there should be conversations that will take place between the Company and Staff as to what the initiatives are that are coming out of the Commission, such that -- I'm sure that there will be some sort of agreement that if it's that large of a burden on the Company, it won't be a surprise to anyone that the Company would have to forego its stay-out premium to refile early.

ALJ AGRESTA: So, what I am hearing is nobody in this room is saying that the Commission couldn't go forward with its initiatives; just that there might be questions in terms of the Company being allowed to refile for a different level of rate.

MR. LECAKES: I would say that is a fair characterization.

ALJ AGRESTA: Does the Company agree with that, too?

MS. NESSER: I do. I don't think anybody here is inhibiting the Commission from doing what it thinks is the right thing to do.

And, the Company would have to take whatever steps it needed to take.

ALJ STEGEMOELLER: Just to clarify, I am less concerned with inhibiting the Commission than I am with going ahead with a rate plan that we reasonably anticipate might be massively disrupted by things that are unfolding as we speak. So, I'm satisfied with your answers.

Does anybody have anything to add to that?

(No response)

ALJ STEGEMOELLER: Okay, let's move on.

The gas conversion program, is there an analysis of the potential demand beyond the available resource of the one million dollar cap? What I'm getting at here is: What is the practical impact of the one million dollar cap? Do you have an estimate?

MR. RIEDER: As we provided in response to ALJ 29, it is very difficult to estimate the number of customers who are actually going to participate in the conversion program until the details of that program have been finalized. As provided in our response to 29, we provided a range of 800 to 1,000 customers that could benefit. And, that was derived assuming alleviating or discount to those customers of $1,000 to $1,250. Now, put that in perspective of fiscal year 2012, the Company ran approximately 3,000 new services and conversions. So, if you just assume that 1,000 customers are going to participate, they have 3,000 new services. Assuming all of those are oil, and with the oil to gas you add about a third of those customers.

Again, the details are very high level. The details of the program right now are at a very high level, in the initial stages. We expect over the next several months the Staff, the Company and the parties to work together to develop a comprehensive oil and gas conversion program that is targeted at the most number as possible and still provide a benefit to most of those customers who switch from oil to gas.

ALJ STEGEMOELLER: Thank you. I think we can move on.

Service company costs, I think my question is mostly for Staff. It seems that most of the concerns that were so prevalent in the last case have been resolved to Staff's satisfaction or many of the concerns; is that correct?

MS. GERBSCH: That's correct.

ALJ STEGEMOELLER: It also seems that most of the unresolved concerns are being addressed going forward in the Joint Proposal. Am I correct about that?

MS. GERBSCH: Yes, that's correct.

ALJ STEGEMOELLER: So, my question really is, going forward, particularly the analysis of the SAP, comparing the previous allocation with it and development of the external cost comparisons, can you talk a little bit about your perception of the risk that those processes might end up showing significant levels of improper costs?

MS. GERBSCH: Is your question: What recourse is there after they do their analyses?

ALJ STEGEMOELLER: Well, no, because I'm assuming, based on my reading of the Joint Proposal, there would be no retroactive recourse.

MR. SCHULER: Richard Schuler. We don't have any up-front expectation that there would be a large likelihood that the SAP investigations would uncover an average. But the agreement is set up such that we can get the data and investigate that and, up front, be ahead of schedule for the next rate case. But, given that there is no a priori expectation of cost overruns --

MS. GERBSCH: I think he's talking -- you are talking prospectively?

MR. SCHULER: Yes.

MS. GERBSCH: I think that there are other alternatives to dealing with any improper costs that show up through these analyses throughout for the term of the rate plan, for the years covered by the rate plan. The first is if we find that there are improper costs, the earnings sharing -- the earnings report would be adjusted. It could be adjusted through there. And, I think it is Staff's perspective that if there is something substantial that comes out of these analyses, we could always make recommendations to the Commission to address those substantial improper costs. We did something similar in the DePrill case back in 2006 where we went through a single proceeding to deal with deferral differences that we had with the Company and a similar type proceeding could be undertaken if that is what Staff recommended and the Commission wanted to go that route.

There is also a dispute resolution clause in the Joint Proposal that if the company does not agree with something that we recommended, we could go through dispute resolution first.

ALJ STEGEMOELLER: Thank you. These questions come up and we have an unusual context here, a continuation from the last case where the Commission actually stated in the Order that it really didn't want to see another rate case before all of these accounting and allocation issues had been resolved. Again, as I read your initial testimony and as I read the Joint Proposal, it does seem that staff in its professional judgment is satisfied to a large extent that the Company has really addressed most of the issues that came up in the last case. But there are the lingering concerns and they are also being addressed going forward. So, I guess my question really is, to the extent your perception of the risk that those lingering concerns will turn out to be bigger than -- big enough to be substantial in the context of the Joint Proposal, that your professional judgment is that there is a very small risk of that. And, is that based on a specific quantified analysis or is it based more on a more general sense of having gone through this whole review process yet again with the Company?

MS. GERBSCH: We have not done a specific analysis. I would say it's probably the latter. We did a review of the Company's filing. They did put in an adjustment for the new allocation factors that would be put into place with their new SAP system. We reviewed that, and at this point we are comfortable. We believe that what has been forecasted is reasonable. But at the same time, we need that analysis done once we have one year's worth of actual data with their new system.

ALJ STEGEMOELLER: Thank you. I am looking to see if anyone has anything to add to that but no one is raising their hand.

MS. GERBSCH: One other thing I would like to point out is that the earnings sharing in this case, sharing starts from dollar one. If they go over their allowed return of point. That, in itself, protects customers for any -- I don't want to say substantial improper costs -- but the differences in forecasted service company costs versus what actually results.

ALJ STEGEMOELLER: Thank you. My last

question on this topic involves the economies of scale issue which, as I read the Joint Proposal, it's not on the table. And I understand that much. I guess what I would like staff to clarify, does that reflect an agreement with the Company that this is not a significant issue or is no longer a significant concern, or does it simply represent an agreement that was negotiated that you will not pursue it any further in this case? In other words, did it just come off the table, or did you agree that this is an issue that we don't have any more concerns about?

MS. GERBSCH: We don't have --

ALJ STEGEMOELLER: Let me interrupt because I'm seeing a furrowed brow back at the counsel's table here. It's really a question of -- what is the nature of the agreement in the Joint Proposal? Is it an agreement that economies of scale is not a significant issue, or is it simply that this issue does not appear in the Joint Proposal because of whatever happened at the negotiating table?

MR. LECAKES: The agreement that was reached weighed a lot of factors. How causal we could make our evaluation of certain elements, and economies of scale, without giving away discussions that took place confidentially and settlement negotiations, at least from Staff's evaluation, economies of scale was a difficult topic for us to quantify and to apply a concrete measure to. And, therefore, we made a decision on our own not to pursue it as aggressively in negotiations as we did some of the other topics with which we have had issues with the Company in the past.

ALJ STEGEMOELLER: Okay, thanks. I think you managed to answer without getting too close to divulging the contents of negotiations. I appreciate that. Does anybody have anything to add to that?

MS. GERBSCH: Yes. I believe in our Statement of Support we did address -- we stated that we still have some reservations regarding this issue, but there are provisions in the Joint Proposal that have mitigated our concerns at this point and that we are satisfied with that for the time being.

ALJ STEGEMOELLER: Thank you. Okay.

ALJ AGRESTA: Do we have the language from the Gas Joint Proposal?

MR. LECAKES: Yes, we do, Your Honor. Denise Gerbsch has something.

MS. GERBSCH: This would be Staff's recommendation; I'm not sure if the Company will agree. And, it's in regard to Section 12.11 of the Joint Proposal filing for new base delivery rates during the term of the rate plan. It might be more clear if it would read such that it states: "If the Company seeks to establish new rates to go into effect prior to April 1, 2016, the Company will be required to defer for the benefit of customers $10.1 million annually and/or $2.7 million annually for the electric and gas businesses respectively prorated to represent the amount that has been recovered by the Company up to the time new rates go into effect."

MR. MOLLOY: Not to compete -- I was with you up until the last sentence. I was thinking of putting a period after "respective" and saying: "The amounts will be calculated from the start date of the rate plan to the date new rates go into effect," to be a little bit more specific.

ALJ AGRESTA: Do you have any objections to that?

MS. GERBSCH: This does not surprise me. Okay.

ALJ STEGEMOELLER: Let's go off the record for a second.

(A discussion was held off the record. Time noted 11:06 a.m.)

ALJ STEGEMOELLER: We are back on the record. Mr. Molloy, do you want to clarify it for us, please.

MR. MOLLOY: Yes. For 12.11 we are changing after the word "respective" we will put a period and have the new words: "The amounts will be calculated from the start date of the rate plan to the date new rates go into effect, as shown in" --

MR. RIEDER: "Exhibit 464."

ALJ STEGEMOELLER: Thank you. We can move on. The next topic is the disposition of the deferral credits. The responses that we got in the statements indicate an acceptance of any schedule that utilizes the same overall level of deferral credits. Why is the overall level of credits used important?

MR. MOLLOY: I would say it's twofold. One is that, remember, these are forecasts so they are not necessarily exact numbers, so there could be some fluctuations. And we wanted to leave a little cushion in case the forecasts weren't perfect. A good example might be repair costs where we have a deferral on the books that could reverse if the tax -- IRS changes their interpretations on how provisions rule. So, it gives us a little cushion there. And, I believe it also allows for at the end of the plan to maybe be in a position where we are not increasing rates for deferrals as well as base rates. It's a little bit more rate stability.

MS. GERBSCH: I think, also, we want rates at the end of the third rate year to be reflective of the actual cost of service. And, if there were credits in year three, that creates problems for year four in the end.

ALJ STEGEMOELLER: Thank you. Speaking of year four, is there a reason why the Commission should not provide that if the Company does not come in for new rates beginning year four that the deferral balance at that time, or the credit balance at that time, should automatically be applied to ratepayers?

MR. MOLLOY: I think it's more of a rate

stability, especially if one is still in a credit position because, now, you will be layering on maybe two years of cap acts and maybe new increases pushing up costs. And, so, you will now have the credit going away as well as all of these other costs that are increasing rates. So, it creates more of a hockey stick.

ALJ AGRESTA: Well, in the stay-out year -- Let's call it rate year four -- does the Joint Proposal provide that the rates would be higher than they would be in rate year three?

MR. MOLLOY: Under the preferred method of dealing with the credits, it would be the exact same this year, the rate.

ALJ AGRESTA: But wouldn't the credits be different?

MR. MOLLOY: Under the preferred method there are zero credits in the third year.

ALJ AGRESTA: Okay. And, under the other method there is how much in credits in year three?

MR. MOLLOY: In the alternative, there is $18 million for electric and --

MS. GERBSCH: No.

MR. MOLLOY: -- in gas. In the electric

there is -- for gas it's $18.1 and for electric --

MS. GERBSCH: It's $54.867 million.

MR. MOLLOY: Thank you.

ALJ STEGEMOELLER: So, I guess our question was: Would there not be, to the extent that the $54 million is a hockey stick for electric rates, that would occur beginning rate year four in the absence of any further action by the Company to come in or the Commission.

MR. RIEDER: Under the alternative approach, that's correct.

ALJ STEGEMOELLER: Right. If the estimate holds up and there is a balance in the order of thirty to forty million dollars at that time, it would moderate rates for that balance to be applied in rate year four; is that correct?

MR. RIEDER: If there is a balance, it would moderate it. However, in rate year five, you have the same issue, as you are using credits again. So, any time you use credits, there is going to be a hockey stick or an increase the following year. Then, as James said, you tack on the capital expenditures and other issues and you have got some serious problems.

ALJ STEGEMOELLER: Although the impact in rate year five would only be drawing off of -- say, it was $35 million as opposed to $51 -- so, it's a question of whether the Commission -- all things being equal, would it make any sense for the Commission to provide for that leveling effect to occur beginning rate year four if the Company is not coming in?

MR. LECAKES: I would just like to point out from a legal perspective that this is assuming that the Commission uses the alternative approach as opposed to the approach the parties put forward as the preferred. That, that is a distinction that does matter to this conversation.

ALJ STEGEMOELLER: Okay. We are just trying to clarify. I don't know if there are any boundaries on what the Commission wants to do with these deferral credits, but they will certainly be having a discussion about scheduling them. Aside from whether it's a wise thing to do, is there any legal or procedural reason why the Commission would not be able to make that provision for rate year four?

MR. LECAKES: From Staff's perspective, there is no legal or procedural reason why the

Commission couldn't do that.

ALJ STEGEMOELLER: I don't want to put you on the spot for a legal opinion right now.

ALJ AGRESTA: You would require additional process? Wouldn't you require a SAPA notice and the ability to be heard before they can act?

MR. LECAKES: It's not in the Joint Proposal.

ALJ AGRESTA: That's what I'm saying.

MR. LECAKES: Right, correct. I'm just trying to figure out whether the SAPA attached to this case that resulted in the Joint Proposal would cover it. And I think it would require an additional process.

ALJ AGRESTA: The SAPA notice is going to be used up, so it's not going to be available.

MR. LECAKES: Yes. I think it would require more involvement from a public comment perspective, possibly SAPA.

MR. RIEDER: This is Mike Rieder. I would just like to add that I think given the absence of any agreement on year four credits, for the Commission to adopt the alternative approach and to order the use of credits in year four would constitute a modification of the Joint Proposal, which would then start that process.

ALJ STEGEMOELLER: All right, thank you.

The paperless billing credit, this is an item that has received some interest from Commissioners, so I really want to clarify a couple of things. The response to our question indicated a 46 cent avoided cost. And my first question is whether that is simply the avoided cost of sending out the paper bill, or does that include processing the customer's return?

MS. SMITH: Kellie Smith. The 46 cents avoided cost is not including the payment handling issue. It's strictly the avoided cost of producing a paper bill. Customers that elect paperless billing don't have to elect paperless payment. We have currently about 750,000 customers, which is about a 50 percent adoption rate, that are on paperless payment, and we have about 251,000 customers on paperless billing, which is about a fifteen percent adoption rate.

ALJ STEGEMOELLER: Okay. The cost of handling, do you have an estimate for the cost of handling?

MS. SMITH: I have a rough estimate. I

still need to go back and check with our Director of our Billing Operations. It depends on how the payment comes in, so there are different levels of costs that the Company incurs depending on how the payments come in to the lockbox. I believe it can be anywhere from four cents to ten cents per payment.

ALJ STEGEMOELLER: Thank you.

ALJ AGRESTA: The next topic is reliability support services. Now, recently there was a coal plant in the service territory that announced it was going to close, and the Company determined that additional infrastructure was needed in order to accommodate that closure and that ratepayers were going to have to pay to keep that plant open while they figure out what to do with it. I asked a question in the first round of questions and I wasn't really satisfied with the response. I thought I heard that there was a discussion underway between Staff and Company to do some planning as to the other plants that are out there that might potentially close so that we don't get any surprises later on, and we can sort of preplan for some of the infrastructure that needs to be put in place if necessary to accommodate the closures. So, I'm hoping someone from the Company can give me some better assurance than we got in the earlier answer.

MR. CHIECO: Allen Chieco, National Grid. Yes, you are correct. In 2011, the Staff and the Company proceeded with an effort to try to look proactively at the generators attached to the Niagara Mohawk service territory, attached to the Niagara Mohawk transmission system and to figure out which ones would create the greatest issues or whether it would create any issues. So, that worked at the beginning. How that work started is that the Niagara Mohawk Transmission Planning Group took a look at each of the generators and, on a very quick review, put them in categories of risk. So, whether it be high level where they believed we have a problem, then medium where we're not sure of the impact, and then low, which is we don't believe there will be an issue. And the Company did go through and develop a list of all of those categories. In the meantime, what occurred is that the Dunkirk scenario or situation occurred. And, prior to that, frankly, we were looking at the southwest region in New York as far as transmission planning issues with regards to some voltage problems, and we discussed it in a different spot in the capital plan. So, the Dunkirk issue, frankly, took a lot of resources, transmission planning resources, and we basically suspended review of specific plants in regards to that work in our review. And upon -- as the Dunkirk work from a planning perspective for study perspective was completed, as you are probably aware, the Cayuga issues started up. So, to answer your question more directly, we have not gotten any further with reviews of generators and specific impacts on the system if those generators cease operating. So, no further work has been done due to the incremental work from Dunkirk and Cayuga. All of the generators have been ranked by risk as we see it, but there is study work that will need to be done accordingly.

ALJ AGRESTA: How many plants do you have in the high risk category?

MR. CHIECO: The high risk category, I am working off memory, somewhere in the range of 15 to 20, I believe.

ALJ AGRESTA: When do you think you will have that done in the system?

MR. CHIECO: Depending on each scenario

it can take up to six months to do a study, which is what we found with Dunkirk specifically. There are some that have no issues that we have found. So, it could take some time to do that, depending on the resources available to us.

ALJ AGRESTA: Do you do them one at a time and complete one and then move on to the next one, such that it's going to take you seven years to get the high risk list, or is there some plan to gear up? I am hoping you can give me something I can go back with.

MR. CHIECO: That's fair, sir. Our intent was to -- if you don't mind, I will back up just a bit. What we found with Cayuga when reviewing Cayuga was that it wasn't on our list to review because it wasn't in our service territory. It was in NYSEG's service territory. So, the impact on Niagara Mohawk we didn't understand until NYSEG did their work and ISO did their work. And, eventually, Niagara Mohawk came about in the process. So, one of the problems -- I guess it really is a benefit of learning from the experience -- is that by us doing our studies by ourselves rather than a state focus study, creates some gaps. So, we have reached out to the New

York ISO to look at another way of doing these studies and to understand the impact to New York State versus just to a utility or transmission owner. So, we are hoping that the ISO, the other transmission owners and DPS would be interested in more of a coordinated effort in these reviews. If not, Niagara Mohawk would continue with its work, the studies we started to do such as like we did with Dunkirk. To be more direct to your question, we would most likely outsource the work to try to get it done in a quicker manner because there is transmission planning functions being done and it's tieing up our resources. I don't know how long it would take, but we would most likely outsource it to speed it up.

ALJ AGRESTA: Thank you. Does anybody on staff want to add anything?

(No response)

ALJ AGRESTA: We are going to move on, then. Time-of-use rates: The proposal to commence a time-of-use rate for SC-1 is not subject to a Collaborative; is that correct, the way I read the Joint Proposal?

MS. DISE: That's right. It's a proposal from the company.

ALJ AGRESTA: So, the example that was given is how you would go just ahead and implement it. Is that right?

MS. DISE: Right. The example was given with the intent to show for a given month -- this happened to be October -- to show what a residential customer would be billed versus a time-of-use customer, and a time-of-use customer using a specific on-off peak percentages that we put in for our purposes.

ALJ AGRESTA: Okay. I find the example to be clear in most regards. But I need a little help understanding the ESRM and the NHA. It's the New Hedge Adjustment and the Electricity Supply Reconciliation Mechanism. Can somebody explain what those charges are for and why they are treated differently for a regular customer and a time-of-use customer?

MS. DISE: Yes. Pamela Dise, National Grid. I also want to mention that this Joint Proposal proposes no change to our commodity mechanisms. The Commodity mechanisms were done in a compliance filing on the last case and went into effect January of 2012. So, this proposes no change to the commodity mechanism. It just offering an option for SC-1 customers, which is our only customers which don't have that option unless you go to SC-1C for a time-of-use rate.

The mechanism that we have for ESRM, which stands for Electricity Supply Reconciliation Mechanism, what it does, it reconciles our electricity supply revenue with our costs. And there are really three components of that mechanism. I should back up a little bit. The way that we charge our residential customers for a commodity is we do it on a forecast basis. So, every month three days before the month we put together the forecast -- our supply group actually does it -- of what the commodity price will be for residential customers. That is posted and is the same rate for all the customers for each given month. That is what you see on the left-hand side of the example.

The ESRM, what it does is, it looks at all of our commodity expenses for a given month and looks at all of our commodity revenue and reconciles them. Within there, based on what I just said about the revenue customers, one of the adjustments that we know goes exclusively to residential customers is the mass market adjustment. We forecasted in this example it was 4661. We forecast the rate. When the rate actually comes in, it will be different from that. So, whether it's larger or smaller, that reconciliation is done and streamlined right to the residential customers.

Also, in the ESRM is the new hedge adjustment. What The new hedges are, those are hedges that the Company entered into for the benefit of our hedge classes which are currently only SC-1 and SC-2 ND classes. So, they are hedges that were entered into after June 1, 2001 separate from all the legacy hedges. Those would just be charged to the hedge classes SC-1 and SC-2 ND. So, a reconciliation of forecasts and actual also happens in the ESRM. The balance of that with all the revenue and expenses taken out, those reconciliations go to all of our commodity customers.

The second part of your question is why the new hedge adjustment is only given to the SC-1 and SC-2 ND related to SC-1 and not SC-1 time-of-use. The SC-1 time-of-use offering was really intended to give those customers the ability to not be charged commodity based on a class load shape, but actually get meters installed so they could manage their own usage. And, if they have the ability to push their usage to off-peak or shoulder-peak when the prices are lower than the on-peak, they can benefit by making their load shape heavier weighted to off-peak and shoulder versus on-peak. And, so, the intent is to put them in the market and let them manage their own commodity and to give them a hedge to somewhat mitigate that, whether it's up or down. It's really for the benefit of the customers though the class load shape.

ALJ AGRESTA: Is that another way of saying that the higher on-peak rate includes some hedging, or is it just a decision to administratively just charge zero?

MS. DISE: No. The reason not to charge them -- it's not embedded in the on-peak rate.

ALJ AGRESTA: What if every single customer was to switch to on-peak, what would happen to the money you used to collect for the hedge adjustment?

MS. DISE: Assuming everybody moved to on-peak, we wouldn't be doing hedging for those customers. The hedge is to actually mitigate the bill volatility for residential customers and small commercial customers.

ALJ AGRESTA: So, you wouldn't want to reduce their volatility on-peak even if they are a time-of-use customer?

MS. DISE: The intend of time-of-use is to let them manage, whether it's on, off, or shoulder peak.

ALJ AGRESTA: Why is the ESRM different? Did you say the hedge adjustment is part of the ESRM?

MS. DISE: Yes. The ESRM is made up of three pieces: The mass market which only goes to the residential customers that are not time-of-use.

ALJ AGRESTA: Is mass market different from time-of-use to regular customers?

MS. DISE: Mass market is our residential customers that wouldn't opt into the time-of-use. And, those are the ones who are forecasting their commodity price on a monthly basis. So, we need to reconcile between the forecasts and the actuals.

ALJ AGRESTA: That is done through the ESRM?

MS. DISE: It's a portion of the ESRM.

ALJ AGRESTA: It's not done through the commodity line that's higher up --

MS. DISE: No. It is definitely done through the ESRM as well as the new hedge adjustment reconciliation, which goes just to the hedge classes. That's why you will see rates different from residential versus residential and 2ND, because residential gets the mass market. They get the NHA and then they get the balance. SC-2 ND only gets the NHA, the balance. All of our other customers get the balance.

ALJ AGRESTA: What is the third component?

MS. DISE: It's the remaining balance. We take all of our commodity revenue and all of our expenses and we take out the reconciliations that we know get streamlined to those individual classes. The rest is shared by all of our other commodity customers.

ALJ AGRESTA: Is the remaining balance the same for the common use customers too, or not?

MS. DISE: Yes. The balance would be the same for all classes that get commodity from us, yes.

ALJ AGRESTA: Could you provide me after the hearing with a breakdown of the ESRM into the component parts that show how the components would show up on either scenario?

MS. DISE: Yes. We have to file a statement every month and it breaks that out. It would probably be easier to provide you with the most recent statement. That would be this example for this month. I will do that.

ALJ AGRESTA: That would be a good idea, okay. Now, the percentages for on-peak, off-peak and shoulder peak, how are they determined?

MS. DISE: In this example, purely illustrative, we just chose the ones that we always used for SC-1C time-of-use rate where we do typical bills. But these would be specific to each individual customer. A time-of-use meter would be put in, and it would meter the actual on, off, and shoulder. So, these percentages would change based on the customer's usage patterns.

ALJ AGRESTA: I am assuming that for the example on the left for the on-peak, shoulder, and off-peak where you have zeros, does somebody at the Company know generally what the breakdown is in percentage for SC-1 customers as a class by percentage? In other words, how often are SC-1 customers on peak, how often are they shoulder peak, how often are they off-peak?

MS. DISE: For the SC-1 customers as a class, I asked that question. And they use load shapes and survey meters because not all of our residential customers have time-of-use. They have samplings and survey meters. So, in the class, if we looked at the most recent annual period, which is I think what they did for me, it was 26 percent on-peak, 22 shoulder, and 52 off-peak. And, this is an annual number. During each month that moves a bit. October is different from July, and such. So, I have a breakdown by the entire year, but that is the annual average.

ALJ AGRESTA: Would it be possible for you to pick a month and show those percentages for that month on the left-hand example, and on the right-hand example assume the customers exactly matched those percentages, and give me a breakdown of all of these charges one more time?

MS. DISE: Yes. But in this example, what happens is that the SC-1 customer doesn't have different rates for on, off, and shoulder. They would have a load shaped rate that would only be one. So you would get to the same point. We don't forecast for an SC-1 customer any of those rating periods because we need only our total. So, it's based on the load shape.

ALJ AGRESTA: I understand. If you were to do a weighted average of the commodity rate for the time-of-use customer in the example I just suggested, you should come out with the same commodity cost as you have in your left-hand example; right?

MS. DISE: No. The reason for that is on the right-hand side -- that's true in theory if we were to charge them actual on the right-hand side. But the way we do residential, billing is for commodity. It's a forecast. So, this forecast rate of .04661 is just that. It's a forecast; it's not an actual. The time-of-use customers are actual rates.

ALJ AGRESTA: I want you to assume that they were the same. What I am trying to get is a table that discloses what the differences are because of choice rather than the happenstance that you made up some percentages to create an example. I'm trying to get that noise out of the comparison. So, in other words, you would assume that the breakdown that you have for the class average in your forecast just happens to be the same exact distribution that the particular customer came up with that was on time-of-use. So, I am guessing, then, that your commodity rate on the left-hand, which is a single number, would equal the weighted average of the commodity rates broken down on the right-hand example, and that the only differences in the rates would be the stuff below that.

MS. DISE: I could do that by introducing the assumption that my forecast is 100 percent correct.

ALJ AGRESTA: Yes. If you could provide that example, I would appreciate it.

MS. DISE: Yes.

ALJ AGRESTA: Thank you. We are going to move to the next topic. The next topic is RPS or Renewable Performance Standard. I set forth the question: Do the parties intend that the term for the Joint Proposal would prevent the imposition of carrying charges on the RPS monies during the term of the rate plan if the Commission decided that it wanted to do that?

MS. DISE: The RPS surcharge is

completely outside of base rates. So, it was not a piece of this case where we were settling on what rates or revenue the requirement was for RPS. All of the rates for RPS, EADS, SPC, come out of orders. And those rates are changed independently of the rate case.

ALJ AGRESTA: I'm not talking about the rate. I'm talking about whether there should be carrying charges to the benefit of the ratepayers or not.

MR. MOLLOY: I think we are saying that the Joint Proposal, while it states that there is no carrying charge today, if the Commission were in the RPS docket to introduce an interest charge, the Joint Proposal does not affect that decision.

ALJ AGRESTA: Okay, thank you. The next category is the DPS Consumer Issues Panel. One of the responses that Staff panel made to a proposal made by the Public Utility Law Project testimony was that the Company's website should be updated to provide specific low-income discount information. Is any provision made for that to happen either inside the Joint Proposal or outside the joint proposal?

MS. SWEET: Keri Sweet, National Grid.

There is no specific provision in the Joint Proposal, but the Company will be updating its website to reflect that in this case.

ALJ AGRESTA: So, we can assure the Commission that that is going to be happening in the case.

MS. SWEET: They can be reassured, yes.

ALJ AGRESTA: The second provision in the Consumer Issues Panel rebuttal testimony, certain acts were described as being in violation of HEFA. What provision is being made to discontinue that problem or concern?

MS. SWEET: In response to Staff's testimony, the Company clarified its policies and procedures and amended an IR that had been submitted in these proceedings to clarify the Company is required to offer repayment to residential customers with arrears. And we actually have a copy of the amended IR that we would ask be marked as an exhibit.

ALJ AGRESTA: Okay. We will identify that as Exhibit 465 for identification.

MS. SWEET: And that resolved many of the noncompliance issues that were raised.

ALJ AGRESTA: Can the Staff confirm that

that is correct?

MR. SILVERSTEIN: Len Silverstein. Yes, that is correct. I can confirm that those concerns were resolved.

ALJ AGRESTA: Thank you. Could you get us an electronic copy of that as well? If you have a hard copy, I would like a copy of that before you leave. Thank you.

ALJ STEGEMOELLER: One of my questions, a preparatory question that we sent out involves the ratio of delivery charges to supply charges. And anyone who follows the public comments that we get on our website knows that this is a subject that perplexes and angers many customers. They are asking: How could we possibly be paying more for delivery of the product than the product costs? So, I am inviting you to give me a somewhat brief and general summary of, first, the historical trends and, second, the reasons why the ratio is what it is today.

MS. DISE: We felt that the best way to do this is to actually provide a couple of bar charts for you. The data we used is actually the data we provided to the Public Service Commission. There are ten-year averages of bills for residential customers on the website. We used that same data. And we went back to 2001 through 2012 of actuals, and we stacked a bar chart that says: Here is the delivery portion in both dollars and percentages of the total bill. Here is commodity. And, we also broke out the surcharges, the EADS, RPS, SPC, GRT and ETA assessment. So, there are two charts we are going to hand out. One has the dollar amounts of a typical customer, 600 Kilowatt hours residential customer, and the other has the percentage. And we can talk about a few monumental events that happened as they go up and down. Other than that, we can open up for discussion. If I can approach the bench --

ALJ STEGEMOELLER: Please.

MS. DISE: I will pass out what we have. We obviously don't have enough for everyone in the room. And if you guys can share, that would be great. I think the best one to focus on first is probably the dollar one. It kind of steps through what a 600 kwh customer would have been paying both on the delivery side, the commodity side, and on top of that, the surcharge portion. And you can see back in 2001 it was $48. And, currently, in rate year one it's $41. So, it's fairly stable across the years.

You will see a bit of a blip. And I have to preface this by saying prior to what we did in this commodities filing, the DCA and CAC, which were a commodity reconciliation mechanism were on the delivery side of the bill, which caused a lot of confusion. We changed that in 2012. For this representation, all the quantities are the commodities. So, the DCA and CAC would be the commodity portion of the bill.

ALJ STEGEMOELLER: Could you just slow down a little and say that again, please.

MS. DISE: What we wanted to show is the commodity-related costs in the commodity portion of this representation in customers' bills during the merger Joint Proposal. So it started in 2002 and it changed in 2012 when we changed the commodity reconciliation mechanisms. You would have found the DCA and CAC -- and, trust me, you don't want me to go into the details of all that. If you remember, back in the time period we did forecast for commodity on a two-year basis for customers because we needed to be able to forecast and charge our credit customers for the over-market variable piece of all the legacy hedges which were buried in our CTC.

So, every two years we had a CTC reset that did two things. It set the forecast of commodity, and also set what our over-market variable cost or under-market variable cost depending on what it was, what the CTC was. And you will see that there are a couple of blips in here which you can talk about that are caused by, one, Hurricane Katrina in 2005 which shot the forecast way up. So, our commodity rates were very high. Our delivery rates went down a bit because that over-market variable piece is in the CTC rate which is embedded in the delivery. So, the delivery component is fairly stable. There are some years we started to introduce deferral recovery, but they are fairly small in nature. The fixed component of the CTC was fairly fixed, so most of the fluctuation that happened in here was the commodity -- for every two years of the reset was the commodity and the offsetting of the variable costs.

So you can see in 2006 and 2007 the delivery component of the bill dropped from 41 to 37. It went up a little bit because we started to collect some deferrals. And the commodity portion of the bill was very large, which has everything to do with the commodity forecast because of Hurricane Katrina and the offsetting reduction in the over-market variable costs.

Deferral, every two years there is also a look at the deferrals. Based on thresholds, we are allowed to collect deferrals in rates. Starting in 2006, we had a small amount of deferrals of $78 million. And 2008, it went up to $156 million. Another big piece you will see in 2012, if you remember the fixed component of the CTC was fully paid off. So, beginning in 2012 you will see a drop of all of the fixed pieces of the CTC with a partial offset. That's when we were allowed to collect the $190 million for the deferral.

And, then, again, in 2013 that $190 million of the deferral actually comes off as well as turns into a credit of, I believe, of $18 or $19 million. On the commodity component of this, it's truly just the commodity. All the commodity gets flowed through to customers. We collect what we pay for all of our commodity customers. So, the fluctuation you see in there is purely that, the fluctuation in the market for the commodity customers.

ALJ STEGEMOELLER: That reflects mostly fluctuations in the price of gas?

MS. DISE: Yes. I'm not a commodity forecasting expert.

ALJ STEGEMOELLER: Fair enough. Thank you.

And, finally, always close with a rate design question.

ALJ AGRESTA: Can you send these two charts as one document, or would it be simpler to send them as two documents?

MS. DISE: I think we can send them as one.

ALJ AGRESTA: A PDF.

MS. DISE: Yes, a PDF.

ALJ AGRESTA: We will mark this as 466. 467 will be the time-of-use calculations.

(Commission Exhibits 466 and 467 were marked for identification.)

ALJ STEGEMOELLER: The question of a solar customer being driven from SC-2ND to SC-2D by virtue of crossing a 2,000 kilowatt threshold or maybe not falling below the 2,000 kilowatt hour threshold after installing the equipment. I guess my question has to do with the seasonal aspect of solar. The preliminary question is: Is the rationale for the 2,000 kilowatt hour threshold based on a system, a summer system peak and the possibility that a customer crossing a threshold might be coincident with the summer peak.

MS. DISE: No, because our delivery rates are not time differentiated. We take all of our costs when doing a normal cost of service study and try to figure out the cost causation between them, our service classes, our groups of customers, similarly situated customers with like usage. So it is based on what assets are there for them on an annual basis all the time; what they are going to use, basically. So, this customer, this solar customer, though figures may come down in the summer, they are still using the same portion of the system in the off-months as they did before. That's true of any seasonal customer. When we look at some of our 2D customers, whether they be ice cream parlors or small ski resorts or whatever, they are still charged on what portion of the system they used that is there and available for them over months of the year. Just because a few months a year they may dip down and use something less than that, the other months of the year they are still using the same system.

ALJ STEGEMOELLER: Okay. Are they paying a commodity charge?

MS. DISE: I don't know if the customer is with us or with an ESCO. But in the months they don't totally generate, they would have to, yes.

ALJ STEGEMOELLER: I believe that that is all of our questions. Do any other parties have any questions for the panel?

(Negative response)

ALJ STEGEMOELLER: Very well. Excuse me.

(ALJ conference held off the record: 11:53 a.m. - 11:54 a.m.)

ALJ STEGEMOELLER: Thank you. Our next order of business is to put the exhibits into the record.

ALJ AGRESTA: Okay. The judges are going to move on our own motion to admit Exhibits 1 through 467. Exhibits 1 through 463 are set forth on a Table of Prefiled Testimony, Exhibits and Other Information to be Admitted into evidence as Exhibits in Cases 12-G-0201 and 12-G-0202 which was previously circulated to all of the parties.

Exhibit 464 is a stay-out premium example provided today.

465 is an updated IR response to NY PULP number 56.

Exhibit 466 is the bar charts breaking out delivery, commodity, and surcharges.

Exhibit 467 will be some time-of-use calculations still to be provided.

For the last four exhibits, if we could get an electronic copy preferably in PDF format submitted to us so we can add it to our electronic system.

With that being said, is there any objection to admission of any of the 467 exhibits?

Hearing none, then they are in evidence.

(Commission Exhibits 1-467 were received in evidence.)

ALJ STEGEMOELLER: I think our last order of business is to talk about any potential briefing that is needed. We have already discussed the ESCO issue. And, I think that on that one, RESA has the opportunity to submit reasons why the two items that we discussed should not be adopted immediately by the Commission. Anyone else who wants to opine on that in writing is welcome to. I think we will set a seven-day deadline, and I will send out an e-mail to that effect.

Paul and I don't see any other issues that we need submissions on, so I will throw it out to the parties. Did anything happen today that would cause anybody to think that they need to submit further argumentation?

Not hearing anything, so we won't arrange for anything. But, we will have that opportunity with respect to the ESCO issue. I will leave the question open just in case for, say, another twenty-four hours if you suddenly think: Oh, no, we really need to cover this issue. You can let us know and we will put that on the same seven-day deadline.

Is there any other business that anybody has? Very well. I would like to personally thank all of the parties for what was a very smooth running case. Maybe you were screaming at each other in the negotiating sessions, but I doubt it. So, thank you very much. The hearing is adjourned.

(The proceeding was concluded at approximately 12:00 noon.)

STATE OF NEW YORK)
SS:
COUNTY OF ALBANY)

I, BETH S. GOLDMAN, a Certified Shorthand Reporter, Registered Professional Reporter and Notary Public in and for the County of Albany and the State of New York, hereby certify that the proceedings recorded hereinabove were recorded stenographically by me and reduced to computer-generated transcription.

I FURTHER CERTIFY that the foregoing transcript of said proceedings is a true and correct transcript stenographically recorded at the time and place specified hereinbefore.

I FURTHER CERTIFY that I am not a relative or employee, attorney or counsel of any of the parties, nor a relative or employee of such attorney or counsel, or financially interested either directly or indirectly in this action.

IN WITNESS WHEREOF, I have hereunto set my hand.

Beth S. Goldman

BETH S. GOLDMAN
Certified Shorthand Reporter
Registered Professional Reporter
Notary Public

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