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February 6, 2006

Via Hand Delivery

Hon. Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Case 05-E-1222 Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service

Dear Secretary Brilling:

Enclosed for filing with the Commission are ten copies of the Direct Testimony of Robert J. Hobday on behalf of Energetix, Inc. in the above-referenced proceeding.

Copies of the direct testimony are being served via e-mail and overnight mail on all parties on the Active Parties List.

Respectfully submitted,

Andrew Gansberg

Andrew Gansberg

cc: Hon. William Bouteiller, Administrative Law Judge (via hand delivery)
Hon. Elizabeth H. Liebschutz, Administrative Law Judge (via hand delivery)
Active Party List

A53743.1

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service	Case 05-E-1222

DIRECT TESTIMONY

AND EXHIBIT OF

ROBERT J. HOBDAY, ENERGETIX, INC.

Dated: February 6, 2006

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service	Case 05-E-1222

DIRECT TESTIMONY

AND EXHIBIT OF

ROBERT J. HOBDAY, ENERGETIX, INC.

Dated: February 6, 2006

DIRECT TESTIMONY OF ROBERT J. HOBDAY

Q. Please state your name, title and business address.

A. My name is Robert J. Hobday. I am Managing Director, Strategic Issues, for Energetix, Inc. ("Energetix"). My business address is 755 Brooks Avenue, Rochester, New York 14619.

Q. Please state your educational background and professional experience.

A. I received a Bachelor of Arts degree in Industrial Administration from Union College in 1965. In that year, I was employed by Rochester Gas and Electric Corporation ("RGE") as a Statistician in the Rate and Economic Research Department, later to be renamed the Pricing Department. I progressed through several positions until becoming Department Manager of Pricing in 1988. In 1994, I transferred to the Marketing Department as Manager Customer Programs Research and progressed to Manager, Marketing in 1996. In January 1998, I joined Energetix as Managing Director, Strategic Issues. Energetix is an Energy Services Company ("ESCO") serving retail electric and gas customers in several service territories in New York.

Q. Have you ever testified before?

A. Yes, I have. I have testified in a variety of rate cases and generic proceedings before the New York Public Service Commission on pricing, cost of service, revenue requirement issues and retail access. The most recent testimony was presented in Cases 03-E-0765 and 02-E-0198, Rochester Gas and Electric Corporation, filed December 31, 2003.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the views of Energetix with regard to two particular aspects of the Commodity Pricing Options to be offered by New York State Electric and Gas ("NYSEG"). I explain first why it is critically important for the Commission to adopt a long-term policy approach in approving any competitive opportunities program on the NYSEG system -- a multi-year term that is long enough to allow ESCOs to plan and commit the resources that will be required to make the program a success. Second, I address the competitive value provided by the offer of a fixed price supply option by the incumbent supplier NYSEG; how it will benefit competition and speed the transition of consumers to new competitive supply alternatives; and conversely why precluding the incumbent from offering the fixed price option would impede the development of a robust competitive retail market.

Q. Please describe your understanding of what NYSEG is proposing.

A. As I understand the proposal put forward in the prepared Direct Testimony of David W. Segal (especially at pp. 2-12), NYSEG proposes to offer customers four choices related to supply options, namely: (1) a Fixed Price Option ("FPO"), with commodity supply from NYSEG; (2) a Variable Price Option ("VPO"), with commodity supply from NYSEG; (3) an ESCO Price Option ("EPO") with commodity supply from a competitive electricity supply company (or "ESCO"); and (4) an ESCO Option with Supply Adjustment ("EOSA") with commodity supply from an ESCO. This proposal is essentially the same approach (other than minor enhancements) as the current NYSEG Voice Your Choice Program ("VYC" or "VYC Program") approved by the Commission for NYSEG. The NYSEG Rate Plan Panel proposes a six-year extension of the NYSEG Rate Plan which would include Witness Segal's proposed VYC Program.

Q. Why is it so important for the Commission to take a long-term perspective here and continue the VYC Program for a new multi-year term?

A. It's a question of the need to plan and commit resources with some reasonable expectation that competitive suppliers will have an opportunity to recoup the costs of their commitments before the program is ended or the rules are changed. For example, it takes a considerable period of time on all utility systems– essentially sometimes up to three or four or more months -- for a supplier to sign up a new customer, switch the service and then begin generating revenue. It may take up to a month to sign up the new customer, 3 to 10 days to process the application and submit the enrollment election to the utility, followed by a 15-day mandatory waiting period after enrollment. Next there is up to a 30-to-60-day wait for the customer's next billing or meter read cycle with the utility before the switch actually occurs, followed by another 30 day period before the customer's meter is read, and a bill can be generated. Only then can the supplier begin to receive revenue. In short, it requires a sizeable up-front financial commitment for a supplier to acquire a new customer. Therefore, reasonable assurance that the customer will remain with the ESCO for a suitable period of time to allow for recoupment of these marketing expenditures is vital.

Q. Witness Segal proposes to continue the VYC Program with successive two-year enrollment periods. Is that appropriate?

A. Yes, it is. In approving the current NYSEG VYC Program, the Commission approved a plan for three successive two-year periods during which NYSEG offered a price that was fixed. This longer period allows competitors a planning horizon that is long enough to justify offering a reliable, competitive alternative -- including preparing for the extensive "back-office" effort required to process thousands of new customers accurately and expeditiously; and designing an effective, coherent marketing campaign. As illustrated by the results summarized in Exhibit __ (RJH-1), this approach seems to be having an immediate positive impact in the marketplace in terms of customers and load actually switching to competitive suppliers.

Q. Please explain the role of the Fixed Price Option in making it easier for customers to choose a competitive supplier.

A. Based on my experience in the utility marketplace, there are three general customer preferences that are key drivers of customers' decisions in choosing among commodity supply alternatives.

- *Known prices are preferred to unknown prices.* First, most customers will want to purchase electricity at fixed, known prices, especially in a time that is still during the early years of the transition to a new system when many other changes in the market are taking place. This is especially so if they have had experience with volatile retail prices for electric and natural gas over the recent past and want to avoid that type of volatility. Hence, because there is a significant preference for fixed pricing, this means that competitive suppliers will probably need to offer customers a fixed price supply option.

- *Known suppliers are preferred to unknown suppliers.* There is also a significant preference for staying with the incumbent supplier. This is so both because customers naturally tend to prefer to trust a company that they have dealt with previously (assuming a favorable experience with that supplier) and because it is easier to "choose not to choose" than to affirmatively compare prices and services and select a new supplier.
- *Customers prefer to spend their limited time on things other than comparing prices, services and supplier performance.* A competitive supplier such as Energetix has a very limited amount of the customer's attention to explain its offer and persuade a customer to sign up for service. This means that the competitive offer must be simple and very easy to compare with the alternatives.

While there are, of course, some customers who do not share these preferences, it is my experience that such preferences fairly characterize a broad section of the customer population.

Q. What are the implications of these customer preferences for competitive suppliers?

A. For a competitive supplier, there are three conclusions that flow naturally from these customer preferences. First, since customers tend to prefer known prices to unknown prices, suppliers will need to offer customers some form of fixed price option that provides pricing certainty. Second, since customers tend to prefer known suppliers to unknown suppliers, it will be important to make an offer that is sufficiently attractive to the customer to overcome this tendency (in addition, of course, to developing an effective marketing campaign that helps educate potential customers and increase their familiarity with the new entrant). Last, since customers prefer to do things other than analyzing competing supply offers, competitive suppliers will have to package their offers in ways that allow the customer to understand and evaluate the ESCO offer in minutes, not hours.

Q. Why then is it important for the incumbent utility NYSEG to provide a fixed price offer?

A. If the incumbent utility offers a fixed price option based on a predetermined, known price determination as is the case for NYSEG, the competitive supplier can devise a marketing package that is simple enough to compare quickly to the utility's offer so that the customer is able to make an informed decision whether to stay with the incumbent or give the new entrant an opportunity to prove itself. As a practical matter, this means that the competitive supplier may respond to the first preference by offering a fixed price option; to the second preference by making the offer sufficiently attractive to overcome the customer's preference for staying with its existing supplier; and to the third preference by keeping the offers sufficiently simple and comparable to allow customers to make an informed decision quickly.

Q. Does the Fixed Price Option proposed by NYSEG allow competitive suppliers to respond to these customer preferences?

A. I would say that it does.

Q. Is this analysis borne out by any specific examples?

A. Yes. The Fixed Price Option proposed by NYSEG is essentially an extension of the pricing design offered by NYSEG since October 1, 2002 and the same as that offered by RGE since October 1, 2004.

Q. Have you prepared a summary of the results of the VYC programs at NYSEG and RGE?

A. Yes, I have. Exhibit ____(RJH-1) reproduces data detailing customer migration to retail access published by the Commission on its web site and summarizes the monthly reports filed by all utilities in the state. Page 1 details the number of customers that have switched and Page 2 details the mWhs of load switched. The time periods have been chosen to show the migration statistics during the time periods just prior and just past a VYC campaign at either NYSEG or RGE.

In the case of each VYC Program, the number of customers migrating to competitive services had increased sharply from periods immediately prior to a VYC enrollment period to the post program both in terms of the percentage of customer accounts as well as the percentage of total customer load. Plainly the approach of including the Fixed Price Option offered by the utility as adopted by the Commission on the NYSEG and the RGE systems, appears to be encouraging customers to choose competitive alternatives. In short, the Fixed Price Option approved by the Commission for NYSEG has been shown to work as part of a successful retail access program.

Q. What would be the impact on competition if NYSEG were to offer only a variable price option?

A. In my judgment, this would significantly retard the migration of customers to competitive supply alternatives.

Q. Why is that?

A. I believe retail customers have a preference for a fixed price option and, therefore, I assume competitive suppliers will want to offer a fixed price option. If the incumbent utility does not offer a fixed price option, customers will be forced to try to compare offers that differ fundamentally one from the other, and customers would have no information available to compare those offers in any meaningful fashion -- rather like trying to decide whether to purchase apples or pineapples when you don't know what the price of the pineapples will be. On the one hand there would be a fixed price offer from an ESCO, with a definite price tag, and on the other, a variable priced offer from the incumbent utility from which most customers have been accustomed to purchasing electricity for decades at a fixed price. Since the customer has no way of estimating the future price of electricity and capacity in the wholesale markets, especially in today's volatile electric market -- and little, if any, experience of how those prices have behaved in the past -- there is no meaningful way to evaluate the competitive offers.

Faced with this inability to compare the competitive supplier's fixed offer against the incumbent's variable offer, many customers will simply choose not to choose a new competitive offer and stay with the incumbent's service, not because they compared the two and decided they preferred the incumbent's offer, but because they had no way to compare the two, lost patience with trying to think the matter through, and so chose to stay with the company that has supplied them for decades.

Put in terms of the above analysis of customer preferences, the absence of a competitive fixed price offer from the utility means that for a competitive supplier to try to meet the customer's preference for a known rate, it must make an offer that the customer cannot readily compare to that from the supplier the customer is most inclined to choose anyway -- the incumbent utility. Hence, even if the customer received fixed price offers from a number of ESCO suppliers that could be easily compared among each other, ***none*** of these offers would be easy to compare with that of the incumbent to determine which is the better price/value package. This is a recipe for customer confusion and frustration, making it likely that many more customers will stay with NYSEG simply because it is the simplest choice for them to make.

Q. Why can't the competitive supplier simply offer a fixed price option that is more attractive to the customer than the utility's variable price option?

A. As noted above, the two pricing approaches are fundamentally different. The proposed "VPO" will include charges for 6 components: energy, capacity, capacity reserves, line losses, company use and unaccounted for energy. According to the pre-filed testimony of Mr. Segal (at 9-10), determining the actual price of the "VPO" involves a number of calculations and adjustments. I do not offer this as a criticism of the proposed mechanism, but rather I want to point out that, absent a track record of actual prices, neither customers nor suppliers will know exactly how the "VPO" price will vary with changes in the NYISO day-ahead market or other market prices. This means that it would be very difficult and indeed risky for an ESCO to try to determine a fixed price offer that is appropriately discounted relative to a utility variable price offer. This is especially difficult since the ESCO, although far more sophisticated than the retail consumer, suffers from the same lack of long term market history under the new pricing scenario.

After all, consumers in the State of California suffered horrendous costs and one major utility was forced into filing for reorganization under Chapter 11 due largely to errors in evaluating future relationships between fixed retail and variable wholesale prices.

In addition, a fixed price is inherently more costly due to the requirement for financial instruments to guarantee that fixed rate. Therefore, at the point in time that the rate is fixed, the rate must include a premium over a market variable rate. However, what the customer seeks and receives is the associated price certainty over a specific period.

Q. Is there value to having consistency among the retail access programs of multiple utilities?

A. Absolutely -- and value goes to both the consumer as well as the competitive supplier. Differences among the plans of individual utilities increase the administrative and marketing costs for a supplier doing business on more than one system. This, of course, raises the revenue threshold required to profitably enter a new market. Since the Commission is trying very hard to make retail access work well, it is important to avoid unnecessarily increasing these administrative and marketing costs. And of course, lowering suppliers' administrative costs through consistency in program design and rules comes at no cost to consumers at all, as the benefit comes simply from reduced duplication of effort and related inefficiencies. In addition, maintaining consistency between the programs of NYSEG and RGE is particularly appropriate in view of the joint operation of those companies.

Q. Do you have any other observations about the appropriateness of NYSEG offering a fixed price option?

A. Yes. Competition is ultimately about allowing the customer to make informed choices among competing suppliers of goods and services. For decades, most customers have purchased electricity under a form of fixed or levelized pricing where the price remained essentially flat between fuel adjustment clause changes and even longer between utility rate cases. It would be contrary to the spirit of increasing customer choice to take away entirely the option to which they are most accustomed.

Q. Does that conclude your testimony?

A. Yes, it does.

NEW YORK

CUSTOMER MIGRATION

NEW YORK CUSTOMER MIGRATION

(In Numbers of Customers Switched)

UTILITY SUPPLIER	SEPT '02	VYC	MAR '03	SEP '04	VYC	MAR '05	SEP '05	VYC	MAR '06
Central Hudson	137		124	1,877		1,961	3,340		
Con Edison	162,028		153,700	107,312		114,006	153,320		
LIPA	35,351		3,544						
New York State Gas and Electric	28,134	X	50,546	54,834	X	79,342	81,086		
Niagara Mohawk	74,778		87,838	111,108		113,045	117,576		
Orange & Rockland	46,899		50,131	65,465		67,613	66,919		
Rochester Gas and Electric	47,533		48,210	44,649	X	72,191	69,972	X	
Total State	394,860		394,093	385,245		448,158	492,213		

Source: http://www.dps.state.ny.us/Electric_RA_Migration

NY CUSTOMER MIGRATION

(In mWh of Load Switched)

UTILITY SUPPLIER	SEPT '02	VYC	MAR '03	SEP '04	VYC	MAR '05	SEP '05	VYC	MAR '06
Central Hudson	66,296		63,410	101,281		97,574	139,114		
Con Edison	1,112,557		963,779	1,342,663		1,195,513	1,626,002		
LIPA	74,397		19,312						
New York State Gas and Electric	161,896	X	266,262	348,053	X	436,346	450,234		
Niagara Mohawk	510,124		569,011	840,138		896,377	1,070,793		
Orange & Rockland	126,658		101,145	170,784		137,943	152,426		
Rochester Gas and Electric	162,093		159,630	222,343	X	287,311	297,406	X	
Total State	2,214,021		2,142,549	3,025,262		3,051,064	3,735,975		

Source: http://www.dps.state.ny.us/Electric_RA_Migration