BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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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 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service	Case 15-G- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service	Case 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service	Case 15-G- ____

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DIRECT TESTIMONY OF ELECTRIC SUPPLY AND NATURAL GAS SUPPLY AND EXPANSION PANEL

Mark R. Beaudoin
Lori A. Cole
Jeffrey M. Converse
Patrick W. Fox
David L. Gridley
David J. Kimiecik

May 20, 2015

DIRECT TESTIMONY OF ELECTRIC SUPPLY AND NATURAL GAS SUPPLY AND EXPANSION PANEL

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DIRECT TESTIMONY OF ELECTRIC SUPPLY AND NATURAL GAS SUPPLY AND EXPANSION PANEL

I. INTRODUCTION

Q. Please state the names of the members on this Electric Supply and Natural Gas Supply and Expansion Panel ("Panel").

A. We are Mark R. Beaudoin, Lori A. Cole, Jeffrey M. Converse, Patrick W. Fox, David L. Gridley, and David J. Kimiecik.

Q. Mr. Beaudoin, please state your title and business address.

A. I am the Director of Customer Services and Systems. My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My Curriculum Vitae ("CV") is attached as Exhibit __ (ESNGSEP-1).

Q. Have you previously testified in other proceedings before the New York State Public Service Commission ("PSC" or the "Commission") or any other state or federal regulatory agency or court?

A. No.

Q. Ms. Cole, please state your title and business address.

A. I am the Manager of Regulatory & Tariffs in the Rates & Regulatory Economics Department. My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (ESNGSEP-1).

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Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. Yes, I testified in Cases 09-E-0715, 09-G-0716, 09-E-0717 and 09-G-0718.

Q. Mr. Converse, please state your title and business address.

A. I am the Manager of Electric Supply. My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (ESNGSEP-1).

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. Yes. I testified previously before the Commission in the early 1990s as part of the Commission's long-run avoided cost proceedings. More recently, I testified in Cases 09-E-0715, 09-G-0716, 09-E-0717, and 09-G-0718.

Q. Mr. Fox, please state your title and business address.

A. I am the Manager of Energy Supply (Gas). My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (ESNGSEP-1).

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. I have not testified before the Commission. However, prior to my employment at the Companies, I testified on various gas and electric issues before the Public

Service Commission of Wisconsin and the Michigan Public Service Commission. I have also testified before the U.S. Court of Appeals for the D.C. Circuit in support of a complaint against the Midwest Independent Transmission System Operator in Federal Energy Regulatory Commission ("FERC") Docket No. EL03-40.

Q. Mr. Gridley, please state your title and business address.

A. I am the Manager of Marketing and Sales. My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (ESNGSEP-1).

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. No.

Q. Mr. Kimiecik, please state your title and business address.

A. I am the Vice President of Energy Services. My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (ESNGSEP-1).

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. I have not testified before the Commission. Before FERC, I submitted an affidavit in support of NYSEG in Docket No. EL00-70-000.

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Q. What is the overall purpose of the Panel's testimony?

A. The Panel discusses:

1) Supply Strategies, Plans, and Policies for Electric Supply and Gas Supply;
2) Gas Station Heater Fuel Cost Recovery;
3) The Gas Cost Incentive Mechanism;
4) The Natural Gas Expense Forecast;
5) Retail Access Programs;
6) Compressed Natural Gas;
7) Marcellus Shale Related Issues;
8) Gas Expansion Programs; and
9) Interconnection Requests.

II. SUMMARY AND IDENTIFICATION OF EXHIBITS

Q. Is this Panel sponsoring any exhibits?

A. Yes. This Panel is sponsoring the following exhibits:

1) Exhibit __ (ESNGSEP-1) provides the CVs of the witnesses testifying on this Panel;
2) Exhibit __ (ESNGSEP-2) identifies New York State Electric & Gas Corporation's ("NYSEG") and Rochester Gas and Electric Corporation's ("RG&E" and together with NYSEG, the "Companies") generators and power purchase agreements;

3) Exhibit __ (ESNGSEP-3) is a schedule listing natural gas capacity contract holdings for the years 2012-2017 based on the expiration dates of the Companies' existing pipeline and storage contracts;
4) Exhibit __ (ESNGSEP-4) provides a city gate annual expense forecast for 2015-2016;
5) Exhibit __ (ESNGSEP-5) provides NYSEG's and RG&E's natural gas market price estimate;
6) Exhibit __ (ESNGSEP-6) provides the 5% Daily Balancing Analysis with Imbalance Trading;
7) Exhibit __ (ESNGSEP-7) provides the 5% Daily Balancing Analysis without Imbalance Trading;
8) Exhibit __ (ESNGSEP-8) is a schedule listing NYSEG's and RG&E's proposed Natural Gas Marketing Budget;
9) Exhibit __ (ESNGSEP-9) provides the proposed Natural Gas Conversion Rebate Budget for NYSEG and RG&E; and
10) Exhibit __ (ESNGSEP-10) provides an index of the Panel's workpapers. A copy of the workpapers will be provided to the New York State Department of Public Service Staff ("Staff").

III. <u>SUPPLY STRATEGIES/PLANS/POLICIES</u>

A. <u>Electric Supply</u>

Q. What sources of electric supply do the Companies currently utilize to serve their retail customers?

A. The Companies' current sources of electric supply are: 1) company-owned generation; 2) fixed-price and market-priced contractual purchases; and 3) New York Independent System Operator ("NYISO") purchases.

Q. Please describe NYSEG's company-owned generation.

A. A listing of NYSEG's company-owned generation is set forth in Exhibit __ (ESNGSEP-2). The majority of NYSEG-owned generation is run-of-river hydropower. NYSEG currently leases one small (7 MW) natural gas-fired generating unit. The operation of NYSEG's natural gas generator is determined by the NYISO. The NYISO's determination is based upon NYSEG's dispatch bids for the unit, which is developed using current market prices for natural gas. The dispatch is determined by the NYISO's market clearing price at the generator bus. The natural gas generator is generally run as a peaking unit.

Q. What percentage of delivery customer load do the NYSEG-owned resources serve?

A. For the Test Year (i.e., the 12 months ended December 31, 2014), NYSEG resources served approximately 1.6% of delivery customers.

Q. Please describe RG&E's company-owned generation.

A. A listing of RG&E's company-owned generation is also set forth in Exhibit __ (ESNGSEP-2). RG&E-owned generation is run-of-river hydropower.

Q. What percentage of delivery customer load do the RG&E-owned resources serve?

A. For the Test Year, RG&E resources served approximately 1.7% of delivery customers.

Q. Please describe NYSEG's contractual purchases of electric supply.

A. A listing of NYSEG's contractual purchases of electricity supply is included in Exhibit __ (ESNGSEP-2). As shown on Exhibit __ (ESNGSEP-2), NYSEG's contractual purchases are a combination of fixed-price and market-priced physical purchases for energy and capacity from the New York Power Authority ("NYPA") and various qualifying facilities ("QFs").

Q. What are the expiration dates of these bilateral contacts?

A. The NYPA agreement is for peaking power and the current contract termination date is December 31, 2017. The QF expiration dates vary as shown on Exhibit __ (ESNGSEP-2). Market priced QF contracts with an expiration date of 2015 are generally one-year agreements that are extended each year.

Q. Please describe RG&E's contractual purchases of electric supply.

A. A listing of RG&E's contractual purchases of electricity supply is included in Exhibit __ (ESNGSEP-2). As shown on Exhibit __ (ESNGSEP-2), RG&E's contractual purchases are a combination of fixed-price and market-priced physical purchases for energy and capacity, the majority of which come from NYPA.

Q. What are the expiration dates of these bilateral contracts?

A. The NYPA agreement is for firm peaking power and the current contract termination date is December 31, 2017. The RED-Rochester, LLC QF contract is currently scheduled to terminate in 2015, but will likely be extended.

Q. Do the Companies purchase electric supply from the NYISO?

A. Yes. The Companies meet their remaining physical load requirements, after accounting for the load supplied by bilateral physical purchases, by making physical purchases from the NYISO.

Q. What happens if the Companies' contractual purchase volumes exceed their actual load requirements?

A. In that situation, the Companies sell into the NYISO day-ahead or real-time market.

Q. Please explain how the Companies utilize their three electric supply options.

A. Each of the three electric supply options (company-owned generation, contractual purchases and NYISO purchases) is utilized differently. The Companies bid their generators into the NYISO at their applicable dispatch price, which for the hydroelectric plants is zero. The revenue received for the generator from the NYISO, minus fuel costs, is allocated to the Companies' delivery customers through the non-bypassable wires charge ("NBC"). Virtually all of the Companies' contractual supply is "must take." The value of the capacity and energy supplied by the Companies' contractual purchases, net of contract costs, is allocated to the Companies' delivery customers through the NBC. Finally, the Companies use NYISO purchases or sales to balance the remainder of their resources and load.

Q. Do you plan on changing the name of the electric NBC?

A. Yes, we plan to change its name to the "Monthly Adjustment Clause."

Q. Why do you plan to make this change?

A. The original purpose of the Transition Charge or NBC was to bridge the transition from a fully-integrated company to retail choice. That transition has been completed and the monthly charge/credit is now an ongoing adjustment to account for items such as company-owned generation, net value of Purchase Power Agreements ("PPAs"), the NYPA Recharge NY Residential Discount Program, transmission related costs and revenues, and miscellaneous Commission-approved credits/charges. The name change accurately reflects the current purpose of the charge.

Q. How do the Companies mitigate market price volatility for customers?

A. The Companies' customers are allocated a load ratio share of company-owned generation and contractual purchases. For all of the Test Year, only 6.5% of NYSEG's residential delivery load and 3.6% of its non-residential delivery load is hedged by these resources. For all of the Test Year, about 28% of RG&E's residential and non-residential delivery load was hedged by RG&E-owned generation and contractual purchases. However, following the expiration of the PPA with R.E. Ginna Nuclear Power Plant, LLC ("GNPP") in June 2014, only 3.3% of RG&E's residential delivery load and 1.8% of its non-residential delivery load are hedged by RG&E-owned generation and contractual purchases. The difference between the residential and non-residential percentages are the Companies' NYPA hydro allocation, which is solely for the benefit of residential customers. The allocation of these fixed price hedges mitigates market price volatility. In addition to the physical hedges, the Companies also utilize financial hedges to mitigate market price volatility.

Q. How does the company-owned generation hedge customer market risk?

A. All customers receive a load ratio share of the revenues created from the sale of energy and capacity into the NYISO.

Q. How does the loss of company-owned generation or expiration of fixed price contracts impact the Companies' hedges?

A. As fixed price contracts expire or generation is shut down or sold, absent taking other hedge positions, the hedge percentages will decline, all else remaining equal. However, the Companies do take additional hedges to replace terminated contracts or generation that no longer operates for the benefit of the Companies' customers.

Q. Will the Companies' contractual purchases continue?

A. Generally, yes; however, NYSEG's and RG&E's contractual purchases of NYPA hydropower are scheduled to terminate at the end of 2017.

Q. Do the Companies still purchase energy from facilities that qualify under the Public Utility Regulatory Policies Act ("PURPA")?

A. Yes, however in March 2010, pursuant to section 210(m) of PURPA, FERC granted NYSEG and RG&E relief from the mandatory purchase obligation for new contracts with QFs in excess of 20 MW.

Q. Do the Companies do any other hedging?

A. Yes, NYSEG and RG&E take additional energy and capacity hedges for residential and small commercial/industrial variable rate customers (i.e., mass market or Default Supply Option) to achieve certain energy and capacity hedge levels. NYSEG's and RG&E's current target is approximately 70% for residential customers.

Q. How does this hedge benefit small commercial/industrial variable rate customers?

A. The additional physical or financial hedges that the Companies take to achieve an approximately 70% hedge level for residential, Company-supplied customers would be allocated equally by load share between residential and small commercial/industrial customers. Small commercial/industrial customers are hedged at a slightly lower level because these customers do not receive the benefit of NYPA hydropower. Thus, the only difference between residential and small commercial/industrial customers' hedge level would be the residential customers' allocated share of NYPA hydropower.

Q. Why do the Companies currently hedge 70% of load for these residential customers instead of some other percentage?

A. The 70% level strikes a reasonable balance between mitigating market price volatility and allowing customers to experience some exposure to market prices. In consultation with Staff, NYSEG periodically reviews its hedge percentage to ensure it mitigates current market volatility. The impact of hedging is reported in quarterly coefficient of variation filings submitted to Staff, as required by the Commission's February 26, 2008 Order Establishing Electric Supply Portfolio

Standard, Goals, and Reporting Requirements in Case 06-M-1017.

Q. Please explain the importance of duration and timing for electricity supply hedges.

A. No entity, including NYSEG and RG&E, can accurately predict electricity supply market prices. A structured program that layers in hedges over time smoothes out the impact of price volatility. Hedging too far into the future would expose the Companies' customers to the risk of customer migration. Specifically, if a large portion of customers switch to an energy service company ("ESCO"), the remaining customers would bear the cost of all these hedges in the event of unexpected migration.

Q. Can you provide more detail on the hedging program for residential and small commercial/industrial customers?

A. Yes. The Companies hedge both energy and capacity roughly 24 months into the future. NYSEG and RG&E hedge approximately 1/8 of their open position each quarter (subject to standard market products) such that, coupled with the Companies' remaining resources, the desired hedge percentages are achieved prior to the start of the period for which the hedges are applicable.

Q. What do you mean by the phrase "standard market products"?

A. Financial energy hedges generally trade in 50 MW blocks. In addition, certain months trade together: winter (January and February); spring (March and April); summer (July and August); and fourth quarter (October – December). May, June and September trade individually. Rather than pay a premium for a non-standard product, NYSEG and RG&E generally use standard trading blocks to hedge commodity purchases taken on behalf of variable price residential customers.

Q. Are capacity ("UCAP") hedging practices the same as energy?

A. Generally yes, with the exception that UCAP hedges are taken on a calendar year basis so that hedges are taken quarterly for two years in advance of the calendar year being hedged.

Q. Do NYSEG and RG&E have any other agreements as part of their portfolio?

A. Yes, NYSEG and RG&E each have a revenue sharing agreement ("RSA") with Nine Mile Point 2 ("NM2").

Q. Please describe the RSA.

A. The RSA was an agreement entered into by NYSEG and RG&E at the time of the sale of NM2 in 2001. The RSA started in 2011 following the termination of the PPA the Companies had with NM2. Under the RSA, NYSEG and RG&E receive a share of NM2 revenues in excess of the contractual floor.

Q. How are the revenues tracked?

A. The revenues are tracked on a quarterly basis and any positive amounts are credited to the Companies after making up for prior period negative amounts.

Q. Please describe the NYSEG and RG&E Reliability Support Service Agreements ("RSSA").

A. NYSEG has an RSSA with Cayuga Generating Station LLC ("Cayuga") and RG&E executed an RSSA with GNPP.

Q. Why did NYSEG enter into an RSSA with Cayuga?

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A. NYSEG entered into an RSSA with Cayuga as a result of Cayuga's filing in July 2012 of a notice of its proposed "protective lay-up" or mothballing of the Cayuga Facility effective January 16, 2013. That voluntary election to mothball or retire the Cayuga Facility by its owners triggered reliability concerns for the electric network and for customers. As the entity responsible for local reliability, NYSEG conducted an analysis of the proposed mothballing and identified adverse reliability impacts that could occur if the mothballing were effectuated. NYSEG also identified transmission system reinforcements as an alternative to remedy reliability impacts arising from a mothballing of the Cayuga Facility, but estimated that the reinforcements would not be completed until 2017, well after the proposed mothball date. As a result, the Cayuga Facility had to remain available for commitment in order to maintain system reliability on an interim basis. NYSEG negotiated the RSSA with Cayuga to ensure the continued maintenance and availability of the Cayuga Facility to avoid adverse impacts on system reliability resulting from the proposed mothballing. An initial RSSA term sheet was filed with the Commission on October 29, 2012 and approved on December 17, 2012. A second RSSA was filed on November 4, 2013 and approved on January 16, 2014.

Q. What is the term of NYSEG's RSSA with Cayuga?

A. The RSSA ends in June 2017 and NYSEG has an option to extend the agreement for six months.

Q. What is the payment structure under the Cayuga RSSA?

A. NYSEG pays Cayuga fixed monthly payments net of capacity and certain energy revenues. NYSEG also pays Cayuga for capital costs required to enable the facility to provide continued reliability services.

Q. How does NYSEG recover the costs paid to Cayuga under the RSSA?

A. NYSEG recovers the costs from customers through a surcharge. This rate mechanism allows NYSEG complete and immediate cost recovery of Cayuga payments. As a result, no further consideration is required in this rate proceeding.

Q. Please describe the status of the Ginna Nuclear Power Plant ("Ginna Facility").

A. Due to a determination that expected revenues from the Ginna Facility would not be sufficient to cover its costs of continued operation, on July 11, 2014, GNPP filed a petition requesting that the Commission initiate a proceeding to examine a proposal for the Facility's continued operation. Pursuant to the Commission's November 14, 2014 Order Directing Negotiation of a Reliability Support Service Agreement and Making Related Findings in Case 14-E-0270, RG&E filed a petition requesting that the Commission accept the RSSA and approve full and immediate cost recovery for RG&E through a rate surcharge mechanism. RG&E's petition is pending before the Commission and is being considered in Case 14-E-0270.

B. <u>Gas Supply</u>

Q. What rate case regulatory requirements apply to natural gas purchasing practices?

A. As part of their rate cases, NYSEG and RG&E are required under 16 NYCRR Section 61.3 (d)(6) to establish that their natural gas procurement policies and practices are reasonable.

Q. What are NYSEG's and RG&E's goals and objectives in the procurement of natural gas?

A. The Companies procure natural gas to promote the best interests of customers in obtaining the maximum projected value for dollars spent, consistent with maintaining supply capability, system reliability, and mitigation of customer risk.

Q. Please describe the plans and processes used to achieve these natural gas procurement objectives.

A. The natural gas procurement program for the Companies is a comprehensive process involving many different components of analysis, including analyses with respect to customer demand, price volatility, contract strategy, day-to-day operations, and billing activities. NYSEG and RG&E develop detailed short-term and long-term supply plans based on an assessment of forecast requirements and customer demand that reflect historical and projected future demand, as well as changes in customer migration to retail marketers. The Companies ensure that they have sufficient supply to meet design day and winter capability requirements. These plans enable the Companies to analyze and determine the need for transportation and storage assets to meet system reliability requirements, including certain assets to support retail access load migration (e.g., large-customer load balancing and small-customer reliability and balancing requirements).

Q. How do you address market volatility?

A. NYSEG and RG&E engage in hedging transactions to reduce the exposure of customers to changes in natural gas prices.

Q. Please describe the contractual process NYSEG and RG&E use in supply procurement.

A. Our purchasing process encompasses significant contracting activities to evaluate and select natural gas suppliers and pipeline services, as well as to negotiate, execute, and administer contractual agreements. Such agreements cover natural gas supply, transportation and storage capacity, and portfolio optimization activities.

Q. How do you manage the process to maximize its effectiveness?

A. While developing and maintaining long-term plans, the Companies continually monitor and manage their short-term, day-to-day operations throughout the year to take advantage of opportunities to maintain reliability, including application of recommendations from the Companies' last management audit. The Companies prepare daily short-term forecasts and schedules; adjust their nominations and delivery schedules on the interstate and intrastate natural gas pipelines that serve our city gates, incorporating retail access program requirements; and work to identify portfolio optimization opportunities (<u>e.g.</u>, capacity releases, third-party sales, and volatility mitigation transactions).

Q. Are there any other components in NYSEG's and RG&E's natural gas procurement process?

A. Yes. After transactions are implemented, energy billing personnel verify supplier and pipeline invoices for payment and generate reports in accordance with all applicable requirements.

Q. Please describe NYSEG's existing natural gas supply and capacity contracts.

A. NYSEG's natural gas supply and capacity contracts are designed to serve the Company's city gates across its noncontiguous service territory. These city gates are served by Dominion Transmission Inc.'s ("DTI") pipeline system, Empire State Pipeline ("Empire"), Iroquois Gas Transmission System ("IGTS"), Tennessee Gas Pipeline ("TGP"), Columbia Gas Transmission, North Country Pipeline, and Algonquin Gas Transmission, as well as other interconnects behind Local Distribution Companies ("LDCs"). Additionally, NYSEG holds capacity on many other pipelines upstream of these interconnected systems.

Q. Please describe RG&E's existing natural gas supply and capacity contracts.

A. RG&E's natural gas supply and capacity contracts are designed to serve the Company's two main city gates at Caledonia and Mendon. The Caledonia city gate is served by DTI's pipeline system including pipelines upstream of DTI. The Mendon city gate is similarly served by the Empire system including pipelines upstream of Empire.

Q. Please explain how NYSEG and RG&E source their supply for retail customers.

A. The Companies' portfolio of natural gas supply and capacity contracts is designed to serve the city gates that we just referenced. Given the Companies' portfolio, they are able to acquire natural gas from various sources that originate in the Gulf of Mexico, Appalachia, mid-continent and Canada. Based on system requirements and the availability of supply, the Companies purchase on a best-cost basis in order to optimize the cost effectiveness of purchases on behalf of retail customers. The Companies not only have geographic supply diversity in their purchasing programs, but maintain price diversity by virtue of the different types of pricing mechanisms that apply to their supply portfolios (e.g., first-of-month index, daily index, fixed price, New York Mercantile Exchange ("NYMEX") futures, and storage weighted average cost of gas).

Q. Please describe NYSEG's and RG&E's portfolio of capacity and storage assets.

A. Exhibit __ (ESNGSEP-3) provides a listing of capacity and storage assets and their expiration dates.

Q. What are the key factors that influence NYSEG's and RG&E's natural gas purchasing practices today?

A. There are three key factors: 1) the magnitude and variability of NYSEG's and RG&E's load; 2) optimization of underground storage use; and 3) mitigation of wholesale natural gas price volatility.

Q. In what way does the magnitude and variability of load affect the Companies' natural gas purchasing practices?

A. The Companies' load consists primarily of high-priority, low-load factor end users. These considerations are balanced in a manner that ensures supply reliability while minimizing natural gas costs to customers.

Q. How is underground storage used as a component of NYSEG's and RG&E's supply portfolio?

A. Natural gas storage is used by the Companies for three primary purposes: 1) to satisfy peak winter demand; 2) to guarantee available supply for short-term peaks (peaks ranging from a few hours to a few days); and 3) to manage daily fluctuations resulting from weather and forecasting variations. To ensure that adequate supplies are available to meet seasonal requirements through the heating season, the Companies inject substantial amounts of natural gas into storage reservoirs from April through October. During these non-heating season months, NYSEG's and RG&E's firm natural gas demand decreases as temperatures rise. Thus, storage enables greater system efficiency by allowing level production and transmission flow throughout the year. Because of this leveling effect, storage decreases the amount of new transmission capacity needed to meet the demands of the marketplace. During the heating season, natural gas held in storage supplements supply and pipeline capacity from the producing regions to meet customer requirements. Because natural gas placed in storage is purchased during the summer months, when prices are typically lower than flowing supplies that would otherwise be purchased during the winter, storage can also provide a seasonal price advantage for customers.

Q. How do NYSEG and RG&E mitigate retail price volatility?

A. The major element of the Companies' program to mitigate price volatility for customers involves hedging a portion of the projected natural gas requirements. Such requirements are accomplished, in part, through the natural price hedge that is afforded by filling storage during the summer months and withdrawing in the winter season. In addition, the Companies enter into forward financial transactions to further manage the price of natural gas for customers. These strategies and associated transactions are developed and reviewed on an ongoing basis.

Q. Please discuss NYSEG's and RG&E's intervention and participation in pipeline rate cases or other proceedings before the regulatory agencies that regulate the natural gas industry.

A. NYSEG and RG&E intervene in natural gas pipeline rate cases, certificate and policy proceedings, and Purchased Gas Adjustment filings both at the federal and state levels to make sure that the best interests of customers are represented in these important regulatory matters. In addition, the Companies participate in similar proceedings before the National Energy Board, which is roughly the Canadian equivalent of the FERC.

IV. <u>MARCELLUS SHALE RELATED IMPACTS</u>

Q. Has the emergence of prolific supply from Devonian Shale sources provided an opportunity for the Companies to pursue changes to their portfolio of assets?

A. Yes, of particular interest is the ongoing activity along the New York - Pennsylvania border in the northern Pennsylvania counties of Susquehanna, Tioga, and Bradford, just south of the NYSEG distribution systems in the Southern Tier of New York. The dramatic increase in Marcellus Shale supply has presented an attractive opportunity to improve the reliability of the portfolio and reduce costs to customers by restructuring the Companies' portfolio of assets.

Q. What changes are the Companies making to their portfolio of assets?

A. NYSEG has contracted with Empire for the equivalent amount that was de-contracted – 14,816 Dths/day of TGP capacity. This change was effective on November 1, 2014. This contracted capacity on Empire will initially be sourced from Chippawa and then converted to Corning on November 1, 2015, upon completion of the Tuscarora pipeline.

RG&E has engaged Empire regarding access to Marcellus Shale supply. The discussions led to the concept of the construction of an approximately 18 mile-long pipeline from Corning, New York to Tuscarora, New York that would connect the Empire system with the National Fuel Supply Corp. ("NFS") system. NFS and Empire are affiliates owned by National Fuel Gas Company. The concept evolved as a complement of Empire services that will include no-notice storage service and address all of the portfolio concerns previously discussed. RG&E expects that the restructured Empire services will be available on November 1, 2015.

Q. What are the customer benefits from this restructuring?

A. While the shift from TGP to Empire does not change the delivered capabilities to the system, the change is estimated to reduce the overall cost of gas by approximately $1.3 million annually.

V. NATURAL GAS EXPENSE FORECAST

Q. Have the Companies prepared a natural gas expense forecast that covers quantities as well as costs?

A. Yes. Exhibit __ (ESNGSEP-4) provides a city gate annual expense forecast for 2015 and 2016. The forecast includes projected load requirements together with natural gas commodity costs and total pipeline costs (i.e., transportation and storage costs).

Q. Please explain the natural gas market price estimate that was used to prepare the expense forecast.

A. The natural gas market price estimate is provided in Exhibit __ (ESNGSEP-5). It is based on NYMEX futures prices published on March 30, 2015. Production area prices and market area prices are developed from data contained in that exhibit. As a result of changing market conditions and high natural gas price volatility, the estimate is subject to change.

Q. Do NYSEG and RG&E propose to continue the existing Gas Supply Charge ("GSC") to collect the cost of gas purchased for firm sales customers?

A. Yes.

V. GAS COST INCENTIVE MECHANISM

Q. Please describe the Gas Cost Incentive Mechanism ("GCIM") in the Companies' existing rate plan, as provided in Appendix V of the Joint Proposal adopted by the Commission's September 21, 2010 Order Establishing Rate Plan in Cases 09-G-0715 et al. ("2010 Rate Order").

A. The GCIM relates to portfolio optimization activities conducted by the Companies on a stand-alone basis. Savings under the GCIM are to be shared as follows:

- 85% / 15% sharing between customers and shareholders for NYSEG/RG&E non-migration capacity releases;
- 85% / 15% sharing between customers and shareholders for NYSEG/RG&E off-system sales net of gas costs and related optimization transactions; and
- 80% / 20% sharing between customers and shareholders for local production.

Q. Do you propose to extend the GCIM?

A. Yes. The optimization activities under the GCIM provide benefits to customers and proper incentives to the Companies and, thus, should be extended.

VI. <u>HEATER FUEL COST RECOVERY</u>

Q. Do you propose any changes regarding the recovery of the cost of gas used to pre-heat city gate natural gas throughput that had previously been accounted for as Operations & Maintenance ("O&M") expense?

A. Yes. NYSEG and RG&E propose that all heater fuel costs be treated as part of overall purchased gas costs for heater fuel consumed on the LDC side of the pipeline meter. This would make cost recovery consistent with the recovery of heater costs at one of RG&E's city gates (<u>i.e.</u>, the Mendon gate station).

Q. Where are these heater fuel costs currently recorded?

A. With the exception of RG&E's Mendon gate station on Empire, heater fuel costs incurred on the LDC side of the pipeline meter are currently recorded as a debit to

FERC O&M Account 875.0 – Measuring & Regulator Station General expense with a corresponding credit to FERC Account 812.0 – Purchased Gas expense. We propose that the cost stay in Purchased Gas and be recovered through the GSC and transportation surcharge.

Q. When did RG&E begin to recover heater fuel costs for the Mendon gate station through a GSC?

A. In the Companies' previous rate case, RG&E proposed to collect Mendon heater fuel through the GSC and transportation surcharge. The proposal was adopted by the Commission and implemented in 2010. The changes proposed by NYSEG and RG&E for any existing and future points where heater fuel is consumed on the LDC side of the meter would be accounted for and collected consistent with the method implemented for the Mendon heater fuel.

Q. For calendar year 2015, what is NYSEG's forecasted heater fuel cost for the existing system?

A. For calendar year 2015, the fuel costs for the gate station heaters that are on the LDC side of the gate station are forecasted to be approximately $275,000.

VII. GAS RETAIL ACCESS OPERATIONS

Q. Have NYSEG and RG&E implemented changes to their retail access programs as a result of the 2010 Rate Order?

A. Yes. As part of Appendix V of the Joint Proposal adopted in the 2010 Rate Order, NYSEG and RG&E initiated a collaborative with interested parties to examine a number of issues including further consolidation of NYSEG's Gas

Supply Area ("GSA") charges, ESCO auto-balancing on the RG&E and NYSEG systems, upstream pipeline cost overrun issues, and implementation of a weighted average cost of capacity approach to capacity release pricing.

Q. What was the outcome of the collaborative?

A. NYSEG completed the consolidation of its gas supply areas into a single GSA. Additionally, NYSEG completed the phasing-in of a pricing mechanism for the purpose of capacity release based on the weighted average cost of capacity. NYSEG and RG&E also phased-in the consolidation of the transportation balancing charges. Lastly, NYSEG and RG&E made the necessary tariff changes to address the assignment of upstream pipeline cost overruns.

Q. Have the Companies recently implemented upgrades to their SmarTRAC software?

A. Yes. Implementation of a new SmarTRAC system (also known as the Gas Tracking System or "GTS") was deployed in October, 2014 for implementation beginning in November 2014. Additionally, the new GTS was designed to address the ESCO auto-balancing function.

Q. What is SmarTRAC?

A. SmarTRAC was the Companies' former web-based Electronic Bulletin Board, which was used to allow ESCOs to nominate natural gas to the LDC retail access program. This website also provided ESCOs with their customer and customer pool usage, load forecasts, imbalances, cash-out amounts, and other critical information. The software performed a series of complex reconciliations designed to keep all market participants whole from a gas cost perspective.

Q. Please explain the new daily balancing provisions as approved in Case 14-G-0131 and implemented in the new GTS.

A. As approved, the new GTS implemented the No Harm, No Foul philosophy, a 10% deadband, and cashing imbalances to zero dekatherms, daily.

Q. With this design, do daily metered customers/ESCO Pools have the ability to perform monthly imbalance trades?

A. No. With imbalances cashed out to zero dekatherms daily, there is no rolling imbalance and therefore no end of month imbalance trading.

Q. Please identify how many imbalance trading transactions were completed by ESCOs since 2006.

A. Since January 1, 2006, there have been a total of 10 imbalance trading transactions for NYSEG and zero imbalance trading transactions for RG&E. There was not a single imbalance trading transaction completed during the five-year period of 2007 through 2011, and only one imbalance trade in 2014.

Q. As it relates to the No Harm, No Foul provision discussed in Case 14-G-0131, does the new GTS incorporate this functionality to minimize the potential for daily metered customers/ESCO Pools to incur balancing costs?

A. Yes. As part of the business construct for the newly implemented auto-balancing feature, the Companies not only desired to more closely align the imbalance costs with the actual gas costs on the day that the imbalance occurred, but also sought to implement the No Harm, No Foul provision.

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Q. Please explain the No Harm, No Foul provision implemented in the new GTS.

A. The No Harm, No Foul provision allows for a daily metered customer/ESCO Pool that exceeded the 10% deadband to continue to be cashed-out at the Tier 1 rate if the total pool area imbalance does not exceed the 10% deadband.

Q. Have the Companies analyzed the costs and benefits associated with reducing the 10% deadband for daily metered customers to 5%, as recommended in Case 14-G-0131?

A. Yes, we have.

Q. Please explain your findings.

A. It should be noted that the new GTS was designed to cash-out daily metered customers as provided in the Commission-approved tariff sheets. Specifically, each customer or pool is cashed out to zero dekatherms on a daily basis (no rolling daily imbalance, no monthly imbalance trading). This is the current state of the GTS. As recommended, the Companies analyzed and compared the results of:

1) Changing the deadband from 10% to 5%, which would result in the following tier changes:

Tier	With Existing 10% Deadband	With 5% Deadband
Tier 1	0 – 10%	0 – 5%
Tier 2	10 – 15%	5 – 15%
Tier 3	15 – 20%	15 – 20%
Tier 4	> 20%	> 20%

2) Allowing for a daily rolling imbalance that would be available for monthly imbalance trading.

The analysis was conducted to determine the total cash-out charges for each Pipeline Pool as a result of normal, non-operational flow order-related activities over the 13-month period from February 1, 2014 through February 28, 2015. The results, as provided in Exhibit __ (ESNGSEP-6), illustrate mixed results. While the reduction to a 5% deadband would provide an overall reduction in daily balancing and cash-out charges for the DTI and IGTS Pipeline pools, the results show overall increased costs for the Algonquin, Columbia and Tennessee Pools.

Q. Since the number of imbalance trades has been effectively non-existent, did the Companies take the current state of the GTS and analyze the results of simply changing the deadband to 5%, but continue to cash-out to zero dekatherms on a daily basis?

A. Yes. The Companies took the existing, implemented process and reduced the deadband to 5% with the following tiers:

Tier	With 5% Deadband
Tier 1	0 – 5%
Tier 2	5 – 15%
Tier 3	15 – 20%
Tier 4	> 20%

The results are provided in Exhibit __ (ESNGSEP-7).

Q. Do the Companies have a recommended solution?

A. Yes. Given the results of the various analyses, the Companies make the following recommended changes:

1) Reduce the deadband to 5%;
2) Continue the daily cash-out of volumes to zero dekatherms to more closely align the imbalance costs with the actual gas costs on the day that the imbalance occurred; and
3) Not re-introduce Imbalance Trading functionality. As previously described, the former imbalance trading functionality was effectively not used (ten imbalance trading transactions over a nine-year period).

Q. What are the additional costs associated with modifying the current GTS functionality to implement a 5% deadband, allowing for the monthly accumulation of daily imbalances and incorporating an imbalance trading feature?

A. The GTS, as presently operating, would need to be recoded to change the daily metered cash-out tolerances to allow for monthly accumulations of rollover volumes and to add trading of volumes at the end of the month, as well as to develop the end of month cash-out volumes for those volumes not traded. The vendor-related cost for these changes is $110,500. It will take approximately six months to implement the GTS modifications if the Commission directs the Companies to implement such changes.

Q. What are the additional costs associated with modifying the existing GTS to implement the Companies' recommended solution?

A. The GTS, as presently operating, would need to be recoded to change the daily metered cash-out tolerances. The vendor-related cost for this change is $54,500.

Q. Are the Companies seeking recoveries for these enhancements?

A. Yes, the Companies are seeking recovery for any vendor-related cost for any agreed-upon change to the existing GTS. These costs would be split equally between NYSEG and RG&E.

VIII. COMPRESSED NATURAL GAS

Q. Is NYSEG in the process of implementing compressed natural gas ("CNG") as a source of supply?

A. Yes. NYSEG currently is unable to grant requests for new or additional natural gas service in the Mechanicville service territory. As part of the effort to do so, in January 2014, NYSEG petitioned the Commission for a declaratory ruling regarding the use of CNG in the Mechanicville service territory (see Case 14-G-0019). In accordance with the Commission's July 1, 2014 Declaratory Ruling Concerning Regulation of a Proposed Compressed Natural Gas Supply Station and Related Facilities in Case 14-G-0019, NYSEG is planning to have operational a CNG peaking solution for some of the Mechanicville service territory beginning with the 2015-16 winter season and will likely follow up with a second phase for the remainder of the Mechanicville service territory in 2018.

Q. What is the contract status for the CNG facilities and supply arrangement for the Mechanicville service territory?

A. NYSEG and Xpress Natural Gas ("XNG") have completed negotiations and have executed an arrangement for the facilities and CNG supplies. The agreement between NYSEG and XNG was filed with the Commission on May 8, 2015.

Q. How will NYSEG recover the cost associated with CNG service to the Mechanicville area?

A. As ordered in Case 14-G-0019, NYSEG is authorized to recover the CNG supply costs through its GSC. All remaining facility costs would be subject to review and normal rate treatment.

Q. Will customers supplemented with CNG have the option to choose qualified ESCOs for their gas supply?

A. It is the Companies' intent to allow customers to choose a qualified ESCO to serve their gas supply needs.

IX. GAS EXPANSION PROGRAMS

A. Overview of the Commission's Generic Gas Expansion Proceeding (12-G-0297)

Q. What efforts has the Commission initiated with respect to natural gas expansion?

A. On November 30, 2012, the Commission initiated a proceeding (Case 12-G-0297) to examine the Commission's policies regarding the expansion of natural gas service in New York State. On the same day, the Commission issued a Notice of Technical Conference and Notice Soliciting Comments ("November Notice"). The November Notice invited interested parties to submit comments on 21 issues.

Q. Have the Companies participated in Case 12-G-0297?

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A. Yes. The Companies participated in a technical conference on January 9, 2013 by presenting their views on gas expansion and at a working group meeting on January 30, 2013. NYSEG also participated in a technical conference on CNG and Liquefied Natural Gas on May 22, 2013.

Q. Have NYSEG and RG&E also submitted comments in that proceeding?

A. Yes. On March 12, 2013, NYSEG and RG&E submitted a number of suggestions and recommendations that would enhance the expansion of the natural gas system within their service territories. In addition, on July 8, 2013, the Companies jointly filed comments on Staff's Proposed Reporting Requirements Related to Inquiries and Requests by Prospective Natural Gas Customers. Also, on July 31, 2013, the Companies submitted responses to various information requests regarding NYSEG's and RG&E's administration of their respective Contribution in Aid of Construction tariff provisions. In addition, on August 5, 2013, the Companies submitted comments in response to a Notice of Proposed Rule Making for Provision by Utilities of Natural Gas Main and Service Lines published in the New York State Register on June 19, 2013 ("June Notice"). The June Notice solicited comments for the Commission's consideration on whether to adopt, modify, or reject, in whole or in part, a proposal by Staff to clarify 16 NYCRR Section 230.2, which includes what is often referred to as the "100 foot rule." The Companies also responded to a series of questions related to their proposal that was a part of the June Notice.

Q. What are the main points or recommendations from those filings?

A. The main points/recommendations from those filings include: 1) re-examining the use of a five-year development period for new franchises in favor of a longer ten-year development period; 2) providing broader authorization when granting a utility's request to exercise or amend a franchise; 3) modifying the customer surcharge process; 4) differentiating the levels of environmental review based upon proposed length, location, and proposed construction technique for gas expansion projects; and 5) adopting Staff's proposal to expand the 100 foot rule.

Q. Have NYSEG and RG&E derived any benefit from their active participation in this proceeding?

A. Yes. The Companies have been able to review the comments and presentations of other natural gas utilities and industry representatives, which we took into consideration when developing the programs proposed in these cases.

Q. Have NYSEG and RG&E taken other utility gas expansion programs into consideration in developing their programs?

A. Yes. The Companies have closely monitored other utility gas expansion programs and considered such programs when developing the natural gas expansion plan proposed in this testimony.

B. <u>Natural Gas Marketing Activities</u>

Q. Could the Panel please explain what types of marketing activities NYSEG and RG&E are targeting?

A. NYSEG and RG&E will have targeted natural gas marketing programs for the following areas:

- Expanding growth on the existing natural gas system, which includes acquiring new customers that currently do not utilize natural gas in their home or business (approximately 18,300 sandwich customers at NYSEG and 9,300 at RG&E) and current customers that do not utilize natural gas for space heating;
- Natural gas main extensions; and
- New natural gas franchises.

Q. How do the Companies plan to market to these target areas?

A. The Companies plan to develop a branded marketing campaign with a common theme along with specific campaigns for the target areas described above. Depending on the target area, the marketing approach may vary. Marketing initiatives will include direct mail campaigns to potential sandwich, non-heat and new main extension/franchise customers. Town hall meetings and trade shows will be utilized where beneficial for specific projects or franchise expansions. One-on-one contact with potential customers is also an important marketing initiative. Website enhancements will be developed and implemented in conjunction with the branded marketing campaign to better educate existing and potential customers on the benefits and cost savings associated with using natural gas, gas safety, how to obtain service, available rebates, financial assistance that might be available from other sources such as the New York State Energy Research Development Authority ("NYSERDA"), and other pertinent information. Information on available rebates and financing options will be included in customer communications. The Companies also plan to evaluate the expanded use of their website for customer interest surveys and project-specific portals to allow communities to remain current on large expansion projects. The Companies also recognize the value of trade allies and will incorporate communication with trade allies into the marketing campaigns as well.

Q. What types of data will NYSEG and RG&E track and how will it be used?

A. Databases are or will be developed to track a variety of data related to natural gas expansion efforts, including, but not limited to the following:

- Sandwich customers;
- Large customer projects (conversion and new);
- Active, planned and potential main extension, franchise and pilot projects (e.g., number of interested and prospective customers, project footage, and construction costs);
- Survey data related to main extension, franchise and pilot projects which includes customer contact information, interest in natural gas, current fuel and cost, equipment interested in converting, range of additional surcharge the potential customer is willing to pay, etc.; and
- Rebate programs.

This data will allow NYSEG and RG&E to develop anticipated costs for customer connections related to expansion projects. These databases will facilitate the tracking of project metrics, such as penetration and conversion rates, surcharges, rebate effectiveness, etc. The databases will also allow the

Companies to access current data to evaluate potential program and strategy changes, changes in rules related to main extensions and franchise expansion, and the status and results of active and completed expansion projects.

Q. Has natural gas growth been factored into the delivery and revenue forecasts?

A. Yes. Incremental natural gas growth has been addressed by the Deliveries and Revenue / Revenue Decoupling Mechanism Panel.

Q. What do NYSEG and RG&E expect these marketing initiatives to cost?

A. The marketing budget requirements are $165,093 for NYSEG and $51,623 for RG&E as shown in Exhibit __ (ESNGSEP-8).

Q. How do NYSEG and RG&E plan to recover costs associated with these marketing initiatives?

A. The Companies propose including the marketing initiative costs in base rates.

C. <u>Natural Gas Expansion</u>

Q. Have NYSEG and RG&E experienced any challenges related to the expansion of natural gas service?

A. Yes. The current rules and regulations that utilities must follow to extend natural gas service are complex and confusing for customers to understand, significantly increase the time required to develop projects, and are administratively burdensome for utilities.

Q. Considering these challenges, will the Companies be implementing any pilot programs to test and evaluate the effectiveness of other alternatives to natural gas expansion?

A. Yes. NYSEG will be implementing a Neighborhood Expansion Pilot Program and a Community Expansion Pilot Program in 2015 and RG&E is considering implementing similar Neighborhood and Community Expansion Pilot Programs. The Companies are also proposing a Community Development Fund Pilot Program.

Q. How do these pilot programs address the challenges associated with natural gas expansion?

A. The approaches used in the Neighborhood and Community Expansion Pilot Programs result in simplified processes that are much easier for customers to understand and significantly speed up the time involved in developing a project. They also provide price certainty to customers from a surcharge perspective. The administrative burden for the utility can be reduced, depending on the pilot, with respect to the need for surcharge agreements, collection of upfront contributions, assessment of monthly surcharges, and recalculation/adjustment of surcharges over the ten-year surcharge period as additional customers connect.

Q. How will the results of the pilot programs be used?

A. The results of the pilot programs will be evaluated for their effectiveness in expanding natural gas service. Based on the results, the Companies may refine the marketing initiatives and customer communication strategies, recommend updates to future rebate programs, and recommend tariff changes that would facilitate the expansion of natural gas service.

Q. How will the pilot program costs be recovered?

A. The Companies propose to include costs for these programs in base rates.

Q. Would the Companies consider other mechanisms to support gas expansion?

A. Yes. The Companies would consider as part of a multi-year rate plan the implementation of a rate mechanism to more closely align the expenditures and recovery of the capitalized costs of utility infrastructure related to expansion projects.

Q. Are NYSEG and RG&E proposing changes to their current tariffs which would support natural gas expansion?

A. Yes. As outlined in the Revenue Allocation, Rate Design, Economic Development, and Tariff Panel testimony, the Companies are proposing to align tariff provisions related to the installation of natural gas mains and services, taking into consideration the impact these changes have on supporting natural gas expansion.

1. Neighborhood Expansion Pilot Program

Q. Please describe the details of NYSEG's Neighborhood Expansion Pilot Program.

A. This pilot program will test a density based expansion approach where, if specific criteria is met, there would be no surcharge to customers for the gas main extension. Qualifying projects will have an average extension length per potential customer equal to 100 feet or less (e.g., for a 500 foot main extension, there would be at least five potential customers; for a 1,000 foot main extension, there would be at least ten potential customers). If NYSEG receives commitments from at least 60% of the customers that are required under current tariff provisions for a project to not have a surcharge, NYSEG will construct the project with no surcharge. Current tariff provisions provide a gas main extension allowance of 100 feet per customer. Therefore, a 1,000 foot gas main extension, under current tariff provisions, would require commitments from ten customers for there to be no surcharge. This pilot would require commitments from only six customers for there to be no surcharge. The rationale for this is that over the ten-year surcharge period for the main extension, NYSEG will likely connect at least the other 40% of the customers required under the tariff.

Q. How many Neighborhood Expansion projects will be included in NYSEG's pilot?

A. NYSEG plans to complete a minimum of 10 projects outside the Town of Plattsburgh and North Country areas. NYSEG will use its best efforts to design and complete construction in at least five of the ten locations by November 1, 2015.

Q. Will NYSEG submit periodic status reports on the Neighborhood Expansion Pilot Programs to Staff?

A. Yes. Periodic status reports will be provided and will include information such as the project scope and status, customer interest and connection information, marketing efforts, and construction costs.

Q. Has NYSEG provided the expected revenues, expenses and investment related to the Neighborhood Expansion Pilot Program?

A. No. At the time of filing of these rate cases, the Companies had not yet identified the revenues, expenses and investments related to specific pilot projects. NYSEG will provide this information in its update to these filings.

Q. Is RG&E considering a similar Neighborhood Expansion Pilot Program?

A. Yes, RG&E is considering implementing a similar program.

2. Community Expansion Pilot Program

Q. Please describe the details of NYSEG's Community Expansion Pilot Program.

A. This pilot program will test a community expansion approach that will provide a fixed surcharge quote for a project. Historically, developing larger main extension projects has been difficult due to two key challenges. The first is coordinating a large number of customers to commit to a project at the same time. The second is a surcharge that changes many times during the development period, prior to construction, as potential customers drop out of a project. The benefit of this pilot program is that it will provide solutions to both challenges. A fixed surcharge will be determined during the development of the project based on a forecast of interested and prospective customers that will connect over the ten-year surcharge period. Potential customers will know the surcharge before committing to take natural gas service and will have the option to pay upfront or monthly.

Q. How many Community Expansion projects will be included in this pilot?

A. NYSEG will evaluate two projects in 2015, and will use its best efforts to start construction in 2015.

Q. Will NYSEG submit periodic status reports on the Community Expansion Pilot Programs to Staff?

A. Yes. Periodic status reports will be provided and will include information such as the project scope and status, customer interest and connection information, marketing efforts, and construction costs.

Q. Has NYSEG provided the expected revenues, expenses and investment related to the Community Expansion Pilot Programs?

A. No. At the time of the filing of these rate cases, the Companies had not yet identified the expected revenues, expenses and investment related to specific pilot projects. NYSEG will provide this information in its update to these filings.

Q. Is RG&E considering a similar Community Expansion Pilot Program?

A. Yes, RG&E is considering implementing a similar program.

3. Community Development Fund Pilot Program

Q. Are there any other programs NYSEG and RG&E are proposing to enhance the expansion of new franchises or gas mains?

A. Yes. The Companies are proposing a Community Development Fund Pilot Program dedicated to the expansion of natural gas to communities where either no approved gas franchise exists or where there is an existing approved franchise, but no gas infrastructure (gas main extension). This fund would match funding provided by local, regional, and/or State agencies to offset the capital costs to construct natural gas infrastructure in a community. This program has the potential to increase the construction of natural gas infrastructure by lowering surcharges to customers and increasing the likelihood that a project will be economically viable by the end of the development period.

Q. What funding levels are NYSEG and RG&E proposing for the Community Development Fund Pilot Program?

A. The Companies are proposing a fund of $300,000 for each Company with a maximum matching fund of $100,000 per project.

Q. What is the time period the Companies are proposing for this pilot program?

A. The Companies are proposing a two-year pilot program.

Q. What would happen to unspent funds?

A. Unspent funds in a given year would be carried forward to the next year through the duration of the pilot program. At the end of the pilot program, any unspent funds would be addressed via a reconciliation mechanism.

D. <u>Conversion Rebate Program</u>

Q. Please explain NYSEG's natural gas conversion rebate program that will be implemented in 2015.

A. In 2015, NYSEG will implement a four-year $1.75 million shareholder funded natural gas conversion rebate program to assist homeowners located in Clinton County, New York (NYSEG's Plattsburgh Division) with the cost of converting from another heating fuel to natural gas (except that $94,500 of the $1.75 million may be dedicated to rebates for NYSEG's Neighborhood Expansion Pilot and Community Gas Expansion Pilot Programs). The program will provide homeowners with a rebate for converting heating equipment to high-efficiency natural gas equipment from any other fuel type. Rebates of $800 per installation are available with an additional rebate of $500 for Home Energy Assistance

Program ("HEAP") qualified customers. High-efficiency equipment is equipment that would qualify under the Companies' energy efficiency ("EEPS") rebate programs. After four years, any funds remaining in the Rebate Program will be made available to customers in Lewis County and Schoharie County. The Rebate Program is expected to last four years or until funds are exhausted and funds will continue to be made available until exhausted.

Q. What is the rationale for NYSEG's current conversion rebate program?

A. While there is a significant price differential between natural gas and other heating fuels, homeowners may incur potentially significant costs in switching to natural gas. These costs include, but are not limited to, the installation of a new heating system, natural gas piping, venting changes, fuel oil tank decommissioning, and, if applicable, surcharges to extend natural gas to the property. Conversion costs can range from $500 or less for a simple conversion of existing propane equipment to over $8,000 for some new high-efficiency boiler installations. The rebate program will assist homeowners with these conversion costs.

Q. Is NYSEG proposing to expand this conversion rebate program?

A. Yes. NYSEG proposes to offer a similar rebate program in the remainder of its service territory with rebate levels consistent with the rebate program to be offered in Clinton County. Specifically, the rebate levels would be $800 for a regular rebate and an additional $500 ($1,300 total) for HEAP eligible customers. In addition, customers would remain eligible for currently applicable EEPS rebates.

Q. What is the estimated cost of NYSEG's proposal to expand the rebate program into the remainder of its service territory?

A. NYSEG is requesting a budget of $380,000 per year for the program, which would be included in base rates; this budget is based on projected customer conversions from new franchises, main extensions, and sandwich/non-heat marketing programs. It is assumed that 75% of customers converting to natural gas will apply and be eligible for a rebate. NYSEG's rebate program budget is shown in Exhibit __ (ESNGSEP-9) which details administrator fees and rebate payments.

Q. Is RG&E also proposing a gas conversion rebate program?

A. Yes. RG&E proposes to offer the same rebate program that NYSEG will be offering in Clinton County. The rebate program would be available to customers throughout RG&E's service territory.

Q. What is the estimated cost of RG&E's newly proposed rebate program?

A. Based on projected customer conversions from new franchises, main extensions, and sandwich/non-heat marketing programs, RG&E is requesting a budget of $240,000 per year for the program, which would be included in base rates. As was the case for NYSEG, it is assumed that 75% of customers converting to natural gas will apply and be eligible for a rebate. RG&E's rebate program budget is shown in Exhibit __ (ESNGSEP-9) which details administrator fees and rebate payments.

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Q. How will the Companies reconcile unspent rebate program funds?

A. Unspent rebate program funds in a given year will be carried forward to the next year.

Q. Are the Companies requesting the flexibility to modify the programs and rebate levels in the future?

A. Yes. The Companies would like the flexibility to modify the programs on an annual basis, based on factors such as historical program performance, new marketing strategies, and alternate fuel prices.

E. Expansion of Economic Development Offerings for Natural Gas Expansion Non-Rate Programs

Q. Do NYSEG and RG&E have plans to expand their economic development offerings to support natural gas expansion?

A. Yes. As discussed in more detail in the Revenue Allocation, Rate Design, Economic Development and Tariff Panel, the Companies seek to increase the funding level for natural gas non-rate economic development programs. Provided certain usage and capital investment conditions are met, the Companies will invest up to $200,000 per project in new gas infrastructure related facilities to help eligible business sectors and projects that are endorsed by one of the Empire State Development Regional Economic Development Councils and/or the Governor's office.

Q. What types of infrastructure related facilities will be eligible for funding?

A. Program funding will be available for, but not be limited to, the following: improvements and/or reinforcements to the existing natural gas distribution system; gas main extensions and/or services that require a customer contribution; customer trenching and backfill associated with company-owned infrastructure; and customer-owned gas infrastructure needed to accommodate the anticipated incremental gas load requirements of this program.

Q. In what ways will this program expand natural gas service to those that do not receive it now?

A. The acquisition of natural gas service for large customers is often capital intensive and includes both utility contributions in aid of construction and customer capital to purchase natural gas equipment or to convert existing equipment to be able to utilize natural gas. This program will provide substantial assistance to customers to overcome the financial barriers associated with using natural gas.

X. ELECTRIC INTERCONNECTION REQUESTS

Q. Are the Companies experiencing an increase in electric interconnection requests?

A. Yes. NYSEG and RG&E have experienced dramatic growth in interconnection requests over the last several years. In 2010, NYSEG received 260 and RG&E received 61 interconnection requests. By 2013, interconnection requests for NYSEG and RG&E grew to 625 and 101, respectively. Aggregate NYSEG and RG&E annual increases from 2010 through 2013 ranged from 25% to 35%. In 2014, NYSEG interconnection requests totaled 1,273 and RG&E requests totaled 131, representing respective increases from 2013 of 104% and 30%. This growth trend is expected to continue in 2015 with total requests significantly exceeding 2014 levels. For example, in the first quarter of 2015, NYSEG received 434 requests and RG&E received 53 requests compared to 174 and 11 respectively in the first quarter of 2014 (a 149% increase for NYSEG and a 382% increase for RG&E).

Q. Why are the Companies experiencing such an increase in interconnection requests?

A. Reasons for the dramatic increase in interconnection requests are numerous. Government incentives play a role. Cash incentives from NYSERDA and state and federal tax breaks are available for qualifying solar installations. The cost of solar installations is also declining, improving the economic payback to customers for system installation. Net metering provisions in New York also provide an offset for energy and delivery charges on customer electric bills. System developers and other parties are also offering innovative financing arrangements, such as lease agreements, that are a selling point for certain customers. Moreover, the Commission's Reforming the Energy Vision proceeding (Case 14-M-0101), with its emphasis on distributed generation, will likely incent increased interconnections for years to come.

Q. How are the Companies handling this increased workload?

A. The Companies' response to the increased workload has been twofold. First, the Companies implemented process improvements and automation to streamline interconnection application processing and approvals. Second, in 2015, the

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Companies added two full-time equivalent ("FTE") contract employees to the Interconnections Group staff. The Companies plan to assign two additional FTEs to the interconnection staff during 2015. The Companies will continue to monitor interconnection growth rates and assess personnel needs in 2015 and 2016.

Q. Does this complete your testimony at this time?

A. Yes, it does.