**VIA OVERNIGHT COURIER**

March 3, 2005

Hon. Jaclyn A. Brilling
Secretary
State of New York
Public Service Commission
Three Empire State Plaza - 19th Floor
Albany, New York 12223-1350

Re: Case 05-M-0090 - In the Matter of the System Benefits Charge III

*Notice Soliciting Comments* (issued January 28, 1005)

**COMMENTS OF NATIONAL GRID**

Dear Secretary Brilling:

National Grid (hereinafter referred to as "National Grid" or the "Company")[1] submits this original letter and fifteen copies hereof as and for its Comments in response to the above-referenced *Notice*. As provided in the *Notice*, Active Parties in this proceeding are being served electronically via the e-mail listserver created by the Department of Public Service for this proceeding. Also as provided in the *Notice*, these Comments are being submitted by question number.

Kindly acknowledge receipt of this filing by date-stamping the enclosed copy of this letter and returning it in the enclosed self-addressed envelope.

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[1] Niagara Mohawk Power Corporation, a National Grid Company, is the legal entity and operating distribution Company in New York in the National Grid system.

**<u>Questions 1, 8, 9, 10, 14 and Comments</u>**

1. *To what extent have the goals and objectives established by the Commission been achieved?*
8. *How can future SBC funded programs be more responsive to the needs of New York's energy consumers?*
9. *How can SBC funded programs be marketed more effectively?*
10. *In what ways can NYSERDA improve its administration of the SBC?*
14. *Do you have any other suggestions for improving the overall SBC program that are not addressed by the above questions?*

As the results in the May 2004 "New York Energy $mart Program Evaluation and Status Report" ("NYSERDA Report") reflect, NYSERDA has done a commendable job in its administration of SBC-funded programs. Whether measured in terms of increases in private and public sector energy and efficiency - related investments in New York State, job increases, reduced annual electricity use, reduced coincident peak demand, energy bill savings, energy diversity, improved air quality, or transformed markets, NYSERDA has succeeded in managing a balanced portfolio of public benefit programs to achieve the goals and objectives of the Commission. The programs also have been shown to create benefits in excess of costs for New York State. National Grid believes, however, that the Commission should consider some further program enhancements, as explained below.

<u>Expanding Customer Participation</u>

National Grid believes that opportunities exist to expand customer participation in the programs. Specifically, National Grid has substantial experience in promoting energy efficiency projects to its large commercial and industrial customers in other parts of its service territories outside of New York. This is done by using business services personnel to promote, advise, and assist customers in identifying energy efficiency opportunities in their facilities. In New York, as in other areas of our service territories, our business services representatives have intimate knowledge about the energy usage patterns and electric facility needs of our largest customers. We are well-positioned, in that regard, to identify energy efficiency opportunities as we assist customers in managing their accounts. Moreover, we have a very large geographical service territory that we cover.

National Grid believes that, working closely in partnership with NYSERDA, we can increase the penetration of NYSERDA's programs throughout our service territory in New York. Many customers have told us that it is difficult to navigate the application process for NYSERDA SBC funding. Specifically, customers have suggested that the paper application process is cumbersome; for smaller customers, in particular, the costs to complete the application process may significantly reduce the benefits provided by SBC-funded programs.

We believe that NYSERDA program coverage could be greatly enhanced by taking advantage of the expertise that National Grid has gained in New York and elsewhere in providing energy-related services to customers. Accordingly, we recommend that the Commission encourage NYSERDA to work with Niagara Mohawk to explore mutually agreeable ways to facilitate customer participation in the programs. A premise of those discussions should be compensation to Niagara Mohawk for incremental costs incurred in the effort. Performance-based incentives should also be considered in those discussions to provide appropriate rewards for exemplary utility performance in program implementation.

Specifically, Niagara Mohawk could help market programs to customers and provide substantial assistance to customers as they navigate through the application process with NYSERDA and its program contractors. If such an approach was adopted, the direct result, we believe, would be increased customer participation in the NYSERDA-sponsored programs. The indirect result would be strengthening of the program performance in meeting the SBC goals, particularly in the area of load reduction and energy efficiency.

For example, we believe an allocation of $800,000 of SBC funds to Niagara Mohawk could permit the company to add incremental staff across its service territory to expand its role of facilitating customer participation in the NYSERDA programs. Niagara Mohawk regional personnel would not only promote the NYSERDA programs, but also would aid customers in the preparation of NYSERDA SBC funding applications. We believe both large and small business customers would appreciate the assistance our personnel could provide in helping them apply for NYSERDA SBC funding. The SBC funds allocated to Niagara Mohawk would be for costs incremental to amounts spent currently for these activities.

<u>Matching Cost Responsibility to Benefits</u>

Another area that we believe could improve the programs relates to the need to better match cost responsibility with the flow of program benefits. In establishing its initial methodology for the allocation of SBC funding costs, the Commission emphasized that because a large focus of the SBC program would be on load reduction and capacity-building efforts, the allocation of responsibility to collect SBC funds should roughly correspond to the benefits customers are likely to receive from such programs (Case 94-E-0952, *Order Continuing and Expanding System Beneftis Charge for Public Benefits Programs*, p. 24 (issued and effective January 26, 2001)). In our opinion, the Commission should inquire as to whether customer benefits indeed "roughly correspond" to utility collection amounts. Our sense is that customer benefits, in the form of energy savings, are disproportionately flowing to areas outside of Niagara Mohawk's service territory. Thus, while non-residential customers in Niagara Mohawk's service territory are receiving SBC grants in a percentage amount approximating the percentage of Niagara Mohawk's SBC allocation (NYSERDA Report p. 3-12), the peak load reduction and energy savings benefits, measured by the wholesale price of electricity, are more concentrated in areas outside of Niagara Mohawk's service territory. Along with this disparity in non-residential benefits, it also appears that residential customers in Niagara Mohawk's service territory receive, on a percentage basis, far fewer benefits than those in other geographical areas of the State (NYSERDA Report pp. 3-13, 3-14). At a minimum, we believe that the Commission and NYSERDA should consider the tracking and pro-ration of benefits, and not just funding amounts.

**Questions 2 and 13 and Comments**

2. *Should the SBC program be continued beyond its current expiration date of June 30, 2006? If so, for what duration should the SBC be extended and at what funding level?*
13. *Should the scope of the SBC program be expanded to include programs for natural gas customers?*

Since the inception of the SBC, the Commission underscored that electric utility rates must not be unduly affected by funding for public policy programs (Opinion No. 98-3, pp. 4-5) and that SBC funding must be closely scrutinized with respect to impacts on rates (Opinion 96-12, p. 61; Opinion 98-3, pp. 5-7, 13). The last time the Commission reviewed SBC funding levels in 2001, the result was an approximate 200% increase in the SBC funding level.

During the eight year period between 2006 and 2013, the Commission has directed the six investor owned electric utilities to assess RPS surcharges on retail customers in the total amount of approximately $742 Million (nominal dollars) (September 24, 2004 *Order Regarding Retail Renewable Portfolio Standard, Appendix E).* If the SBC is extended at the existing rate of $150 Million per year for the same period of time, New York utilities will be assessing SBC surcharges on retail customers in the total amount of $1.2 Billion. Retail customers, then, would be paying almost $2 Billion in RPS and SBC surcharges. In the case of Niagara Mohawk, its retail customers would pay during this time period approximately $214 Million in RPS surcharges (September 24, 2004 *Order Regarding Retail Renewable Portfolio Standard, Appendix E).* and, at existing SBC levels, approximately $319 Million in SBC surcharges, for a total estimated amount of $533-Million in combined surcharges. Whether considered on a state-wide basis, or in the case of Niagara Mohawk alone, these are unprecedented levels of Commission-directed surcharges that are being imposed on top of delivery and commodity charges.

Although we believe that the NYSERDA SBC programs are cost effective from a societal perspective, we cannot ignore the impact an increase in SBC funding levels would have on customer prices. This issue is heightened in the case of combination gas-electric customers that are subject to spikes in natural gas prices, and in the case of high load factor electricity customers that face high electricity costs and cannot readily shift loads. For these customers, any increase in SBC funding levels could be problematic and might conflict with other policy objectives, such as economic development. For these reasons, the Commission should be cautious with respect to approving any spending increases and should only do so after a thorough analysis of all relevant data and careful consideration of price and bill impacts for program participants and non-participants alike.

As for the duration of any extended SBC program, National Grid believes that a five-year extension of the SBC program may be too long, particularly when considered in light of the need to fund the RPS program. National Grid instead suggests that the Commission consider a three-year program approval. We believe such a program term would strike a reasonable balance between the needs of NYSERDA and the vendors it relies upon for a reasonable planning horizon to implement major programs and the needs of the Commission to periodically review and modify the level of funding committed to the SBC in light of on-going program effectiveness, price and bill impacts on customers, and other relevant considerations.

**<u>Questions 3, 4, 5 and Comments</u>**

3. *Have conditions changed since the establishment of the SBC that would necessitate a change in the overall goals and objectives of the SBC? If so, what changes are recommended?*
4. *If assuming continuation of the SBC, how should programs be prioritized to meet those goals and objectives?*
5. *How might the SBC programs be adjusted given the Commission's order, issued September 24, 2004, regarding a Renewable Portfolio Standard (Case No. 03-E-0188)?*

In its September 24, 2004 *Order Regarding Retail Renewable Portfolio Standard* (pp. 12-13), the Commission provided the following guidance regarding the interaction of New York's SBC program with the RPS program:

> While the Commission has elected to not consider demand-side management (DSM) or energy efficiency measures as eligible for meeting the RPS goals at this time, the creation of an RPS necessitates that DPS Staff work with NYSERDA to examine the state of the SBC program and proposed strategies to reprogram funding as necessary to ensure the SBC and RPS programs are not duplicating efforts. This may require that SBC resources currently targeted to support renewable initiatives be reprogrammed to support efficiency efforts. It must also be noted that DSM and energy efficiency, regardless of their current exclusion as an eligible RPS resource, will have an impact on the RPS targets. Analysis will be needed, on an on-going basis, to determine whether, and to what extent, DSM measures may lower the megawatt hour targets and therefore funding requirements for the RPS program.

As the Commission is aware, the investor-owned electric utilities falling within the scope of the RPS Order, including Niagara Mohawk, have been strong supporters of DSM and energy efficiency projects under the RPS program. We continue to believe that these activities can provide cost-effective means to attain the 2013 target of 25% renewable energy. As recognized by the Commission, however, there is the potential for duplication between the SBC and RPS programs.

There is no doubt that the NYSERDA Report (p. ES-iv) reports successes in connection with peak reduction and energy efficiency programs. However, we do not believe that, at this time, a sufficient case can be made for an increase in funding for these programs if this would require an increase in the overall SBC sums paid to NYSERDA. As discussed in our responses to Question (2) above, we are concerned about the rate impacts of increases in overall SBC funding levels, particularly in light of rate impacts of the RPS surcharges. We have no objection to, and, indeed, fully support the reallocation of other SBC funds duplicative with RPS funds to peak load reduction and energy efficiency programs.

**<u>Question 6 and Comments</u>**

*6. In what ways might the current SBC fund collection and allocation process be improved?*

We recommend that the Commission require NYSERDA to track program benefits by utility and consider using this metric as the basis for the allocation of SBC collections rather than electric operating revenues, as is currently the basis. At present, program benefits are generally allocated in proportion to where the collections come from. Although we lack definitive data, because benefits have not been tracked on a utility basis, we believe that customers located where electricity prices are generally higher are receiving greater benefits from the SBC programs. Accordingly, we believe it would be appropriate for those customers to bear a larger percentage of the total collections that is currently the case. Such an allocation scheme would match program benefits with costs and minimize cross-subsidies between utility customers.

Pending a shift in overall allocation technique, the Commission should update the percentages it uses to allocate SBC collections. In its *Order Continuing and Expanding the System Benefits Charge for Public Benefit Programs,* issued and effective January 26, 2001, as modified in an *Order Addressing Petitions for Clarification and/or Rehearing and Adjusting SBC Budgets*, issued and effective July 3, 2001, the Commission established the 2001 through 2006 SBC collection allocations according to each utility's share of statewide 1999 electric operating revenues. At that time, total 1999 electric operating revenues for the six investor owned electric utilities subject to the SBC were approximately $12.2 Billion, of which Niagara Mohawk's share was 26.58% (net of NYPA sales and SBC-exempt customer revenues).

Prospectively, we believe that initial SBC collection allocations should be based on 2003 electric operating revenues, which are the most recent reported revenues. According to the Commission's 5-Year Index Report (which appears on the Commission's website), total 2003 electric operating revenues for the SBC-funding utilities were $12.6 Billion, of which Niagara Mohawk's share was 25.76%. Going forward, Niagara Mohawk's allocation should thus be reduced from 26.58% to 25.76%.

Following this initial allocation, as we have previously discussed, we believe that cost responsibility for the program should better match the flow of benefits. This is a ratemaking principle that applies in most rate contexts, where costs are assigned to parties responsible. Similarly, we believe a more equitable approach to cost recovery is to have customers in the utility service territory where the benefits are the greatest bear more of the cost responsibility. Thus, SBC costs *and* benefits should be periodically tracked on a utility basis; and the costs allocation trued-up to reflect the allocation of benefits. Where, for example, the energy savings of customers in a geographical area are lower than that area's SBC funding commitment, the SBC funding commitment should be reduced. Similarly, where an area is obtaining a substantial amount of the benefits, it is more equitable to have a larger share of funding responsibility assigned accordingly. This method will recognize the value of energy savings and provide a mechanism to stream SBC funds to those areas of New York State where they are most valuable. Without such an allocation, given the differences in energy prices in New York, it is possible that program benefits might not exceed costs for a utility even though the program was cost-effective overall in New York State. As noted, this will help insure the alignment of benefits and costs for customers of all the utilities and help reduce cross-subsidies between utilities.

**Question 7 and Comments**

*7. What specific program(s) should be eliminated, expanded or created?*

As the Commission is aware, Niagara Mohawk low income customers have been allocated SBC funding for special energy efficiency services provided by NYSERDA. In accordance with the Commission's May 26, 2004 *Order Modifying and Approving Low Income Energy Affordability Program* in Case 94-E-0952, administration of this program is shared with NYSERDA. Niagara Mohawk is allowed to retain $90,000 in SBC funding to assist in its referral activities under this program.

As the Commission is also aware, in the merger Joint Proposal (JP Section 1.2.9), which was approved in Case 01-M-0075), we have the right to "file for Commission approval to change the scope of the program if funding through the SBC increases, decreases, or expires during the Rate Plan, or if the allocation of funds from the SBC for Niagara Mohawk Low-Income Customer Services is changed by the Commission." Further, specific performance targets within the Service Quality Assurance Program "may be modified if program funding from the System Benefits Charge (SBC) is changed by the Commission . . . ." (JP Attachment 19, Sections 1.4, 1.5).

Based upon the success of the low income program targeted to Niagara Mohawk customers, we support its continuance. The only caveat is our concern that the $90,000 funding amount does not appear to cover total Niagara Mohawk costs. We would therefore request the opportunity to track its actual costs and seek appropriate recovery of any incremental costs incurred above $90,000.

**<u>Question 11 and Comments</u>**

*11. Is the current NYSERDA program evaluation process adequate? How might it be improved?*

The NYSERDA Report is comprehensive in its discussion of the many programs administered by NYSERDA. As indicated above, however, the NYSERDA Report does not detail SBC program benefits (either actual or estimated) by utility. While the NYSERDA Report, in many sections, identifies SBC funding amounts by utility, SBC benefits such as energy bill savings and the like are not. We believe that inclusion in future SBC evaluations of SBC costs and benefits on a utility basis would assist the Commission in its on-going oversight of the SBC program.

In addition, we would suggest that the information about each program should be provided in a consistent manner. Specifically, along with SBC benefits by utility, it would be useful if each program discussion could provide information regarding the amount of SBC funding awarded, the amount of energy or capacity savings, the number of participants, and the type of end use customer (*e.g.*, whether large commercial, small commercial, or residential).

Respectfully submitted,

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cc: Active Parties (via SBC e-mail listserver)