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125 West 55th Street
New York, NY 10019-5389
(212) 424-8000
FACSIMILE: (212) 424-8500
E-MAIL ADDRESS: AADAVIS@LLGM.COM
WRITER'S DIRECT DIAL: 212-424-8575

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October 17, 2005

VIA HAND DELIVERY

Jaclyn A. Brilling
Secretary
State of New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223

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

Dear Secretary Brilling:

Pursuant to the *Notice Soliciting Comments* issued August 31, 2005 in the above-referenced proceeding, enclosed for filing are an original and fifteen copies of the Joint Comments of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation.

Very truly yours,

Amy A. Davis

Amy A. Davis

cc: All Active Parties (Electronic List-Serve)

STATE OF NEW YORK PUBLIC SERVICE COMMISSION

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

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JOINT COMMENTS OF NEW YORK STATE ELECTRIC & GAS CORPORATION AND ROCHESTER GAS AND ELECTRIC CORPORATION

Amy A. Davis, Esq.
LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, New York 10019
(212) 424-8575

Dated: October 17, 2005

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JOINT COMMENTS OF NEW YORK STATE ELECTRIC & GAS CORPORATION AND ROCHESTER GAS AND ELECTRIC CORPORATION

I. INTRODUCTION

New York State Electric & Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E"), (hereinafter collectively, the "Companies") hereby submit their comments in response to the *Notice* (the "Notice"), issued August 31, 2005 by the State of New York Public Service Commission (the "Commission") in the above-captioned proceeding.[1] The Notice seeks comments concerning the August 30, 2005 *Staff Proposal for the Extension of the System Benefits Charge (SBC) and the SBC-Funded Public Benefit Programs* (the "Staff Proposal").

In these comments, the Companies offer the following overarching principles. In the event the Commission extends the SBC, it should continue to authorize the Companies to retain a portion of the SBC funds collected to support resource planning or transmission and distribution projects as well as current Demand Response Programs. The Commission also should require NYSERDA to expend funds in the particular service territory in which the monies are collected. The Commission should not compel customers in one service area to assume a greater proportional share of the costs of SBC programs or to fund programs that only benefit

1 *See also*, State of New York Register, dated August 31, 2005, I.D. No. PSC-35-05-00014-P.

another area In fact, customers should realize direct benefits as a result of the programs they are asked to support through the SBC surcharge.

II. SBC III PROGRAM RECOMMENDATIONS PRESENTED BY STAFF

1. Program Consolidation

The Companies generally support the recommendation of the Staff of the Department of Public Service ("Staff") that NYSERDA should consolidate programs of similar interest to customers to facilitate customer participation in NYSERDA programs. As noted by the Companies in their March 4, 2005 comments, some aspects of programs may now be obsolete as they may be sufficiently mature and, thus, no longer need SBC funding. Those program features should be removed as part of the consolidation process.

2. Transmission and Distribution ("T&D") Research and Development ("R&D")

The Companies support Staff's proposal to allocate SBC funds for T&D R&D to achieve the Commission's objectives of promoting energy efficiency and enhanced electric system reliability. It is important that the Commission take steps to ensure that the necessary infrastructure is in place to deliver energy to the areas where it is needed most. Recently, the Commission has concentrated on development of additional generation resources (*e.g.*, distributed generation and renewable resources). The time is now ripe for the Commission to shift its focus to address resource planning and T&D–related matters.

Many of the T&D-type programs will, by necessity, need to be utility-specific. Accordingly, the Companies propose that a portion of the SBC funds collected in a particular company's service area should be retained by that utility and allocated to a company-specific program. Moreover, even though a particular project may be sponsored by NYSERDA, a particular utility may be expected to provide engineering coordination, project monitoring, and related support. Under those circumstances, it would also be appropriate for the utility to retain SBC funds to support such activities.

The Companies also endorse Staff's recommendation that NYSERDA should "aggressively seek matching funds and technical assistance from other interested parties."[2] To facilitate those efforts, the Companies recommend adoption of a collaborative approach to T&D R&D through membership in EPRI or other similar organizations. Participants in this process should include NYSERDA, all the utilities, the New York Power Authority and the Long Island Power Authority and SBC funds should be allocated to support these endeavors.

3. <u>Renewable Resources</u>

The Companies endorse the Commission's goal to develop alternate sources of energy, including renewable generation. While the Companies support those efforts, the Commission must take steps to ensure that the SBC and its Renewable Portfolio Standard provide complimentary, not duplicative, support towards achieving that goal. The Staff Proposal identifies the following activities that could receive SBC funding: (i) promotion of renewable resources; (ii) training of renewable energy professionals; (iii) market development; (iv) technology development; and (v) manufacturing incentives. Care must be taken to ensure that

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2 Staff Proposal at p. 17

both RPS and SBC funding is not provided to the same activity. Additionally, no SBC funds should be used to unfairly benefit or subsidize the market entry of energy services companies, marketers, competitive meter suppliers, competitive meter data service providers or any other suppliers of competitive services.

4. Demand Response Programs

Recent events re-enforce the utility-specific nature of demand response programs. As noted above, utilities should be permitted to either retain funds for use in the territory where they were collected or the Commission should require NYSERDA to allocate those funds in the particular service territory from which they were collected.

5. Evaluation and Monitoring

The Companies generally agree with Staff that a more streamlined evaluation process should be implemented. The reporting process should remain in place without modification.

6. Natural Gas

The Companies agree with the Staff that a gas SBC should not be considered pending the completion and analysis of the Gas Statewide Study[3], which is expected to be available in early 2006. If an SBC for Natural Gas is adopted, the Companies believe that the combined electric and gas SBC for the average customer should not exceed the current electric-only SBC level.

[3] NYSERDA has agreed to fund the optional study component, reflected in the Request for Proposal (RFP), issued for the Con Edison in response to the Order Approving Joint Proposal dated September 27, 2004, in Case 03-G-1671.

III. SBC REVENUE REQUIREMENTS

1. Utility-Run Programs

The Companies disagree with Staff's recommendation at pages 22 and 23 that funds now retained by NYSEG and RG&E should instead be allocated entirely to NYSERDA. Staff incorrectly claims at page 23 that NYSEG no longer needs the allocated funds to refer eligible customers to the NYSERDA EmPower New York SM program since the referral process is now an integrated part of NYSEG's customer service function and no further training funds are needed.

Contrary to Staff's understanding, the funds are not used to train customer service representatives. Rather, the funds support NYSEG personnel directly contacting customers by phone or mail to explain the energy efficiency measures offered by the NYSERDA EmPower New York SM program. NYSEG also conducts a full screening of the customers to ensure that necessary customer authorization to release information is obtained and to confirm that the customer has not previously been referred to NYSERDA for enrollment in the program or received similar services in the past (which is not permitted under program guidelines). This in-depth process (outreach and education and enrollment confirmation) is an ongoing and continuing part of the referral process and not intended to only take place in the introductory phases of the program. If the Commission redirects the funds to NYSERDA, customers will no longer have access to this extensive outreach and screening process and NYSERDA would no longer receive the qualified leads that it does today.

When NYSERDA's EmPower New York SM program began on July 1, 2004, NYSEG had 22,500 customers participating in its Power Partner program. At that time, 17,000 active customers had not received any energy services, and thus, was the first grouping that NYSEG targeted for referrals to NYSERDA. Today, NYSEG refers newly enrolled customers, accepts referrals from human services agencies in the 43 counties that NYSEG serves and sends a direct mail piece to NYSEG's existing customer base.

Under the terms of its approved Low-Income Affordability Program[4], NYSEG must refer 4,200 customers per year to NYSERDA's EmPower New York SM program. Since NYSEG retains the ongoing responsibility to refer customers to NYSERDA (and thus must perform ongoing activities), the Commission should continue to allocate the funding to support those functions. If the Commission nevertheless re-allocates the funds to NYSERDA, enrollment in the program should not be limited to just those customers enrolled in utility low-income programs.

Similarly without merit is Staff's recommendation at page 23 to eliminate RG&E's SBC-funded R&D program funding of $200,000 per year and to re-allocate those monies to NYSERDA. Staff offers no support for its conclusion that it would be most efficient and equitable to have NYSERDA administer all SBC-funded R&D. Importantly, RG&E-funded programs afforded direct benefits to the customers that provided the funds.

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4 Case Nos. 94-E-0952, In the Matter of Competitive Opportunities Regarding Electric Service – System Benefits Charge. LOW INCOME PROGRAMS, 01-E-0359, Petition of New York State Electric & Gas Corporation for Approval of its Electric Price Protection Plan. LOW INCOME PROGRAMS, Case 01-M-0075, Niagara Mohawk Power Corporation, *et al.*, Petition for Approval of Merger and Stock Acquisition. LOW INCOME PROGRAM, *Order Modifying and Approving Low Income Energy Affordability Program*, issued May 26, 2004.

In the event it is permitted to retain the funds, RG&E would support future programs to further promote safety, reliability and efficiency of the electricity grid.[5] However, since such projects will, by design, need to be tested on utility systems, utility participation in projects will be required. Thus, retention of SBC funds to support such activities would be appropriate.

IV. SBC REVENUE ALLOCATIONS & COLLECTION

1. Allocation Formula

The Companies concur with Staff's recommendation at page 24 that the current allocation formula should be updated based on 2004 utility operating electric revenues. The Companies also agree that the updated allocation formula would be used for the term of SBC III.

2. Transfer Payments to NYSERDA

Staff recommends that utilities should establish a schedule of payments with NYSERDA and suggests that payments should be made at least every quarter.[6] The Companies propose that payments would be made to NYSERDA on a quarterly basis. The Companies should only be obligated to transfer actual amounts collected from customers and should have no make-whole obligation. Additionally, as explained above, the companies should be permitted to retain certain SBC payments collected from customers and should not be required to remit any unexpended sums to NYSERDA. Any unexpended amounts should be retained by the Companies and allocated to programs that will directly benefit those customers that originally paid the SBC.

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5 Staff Proposal at p. 17.
6 Staff Proposal at p. 25.

V. CONCLUSION

For all the above stated reasons, in the event the Commission extends the SBC, the program should be implemented consistent with the comments provided herein.

Respectfully submitted,

Amy A. Davis, Esq.
LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, New York 10019
(212) 424-8575

Dated: October 17, 2005