

**VIA ELECTRONIC MAIL & OVERNIGHT DELIVERY**

October 17, 2005

Honorable Jaclyn A. Brillling  
Secretary  
State of New York  
Public Service Commission  
Three Empire State Plaza, 19<sup>th</sup> Floor  
Albany, NY 12223-1350

**Re: CASE 05-G-0090 – In the Matter of the System Benefits Charge III**

**COMMENTS OF NIAGARA MOHAWK POWER CORPORATION**

Dear Secretary Brillling:

Niagara Mohawk Power Corporation, d/b/a National Grid, hereby submits for filing with the Public Service Commission ten (10) copies of this letter and attached comments in connection with the above-referenced proceeding. Copies of the filing also are being served via electronic mail upon the parties identified on the list-serve provided by the Commission in this proceeding.

Please advise if you require further information related to this filing.

Respectfully submitted,

Carlos A. Gavilondo

cc: Sue Pelkey

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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**In the Matter of the System Benefits Charge III**

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**CASE 05-M-0090**

**COMMENTS OF  
NIAGARA MOHAWK POWER CORPORATION**

**By: Carlos A. Gabilondo**  
General Counsel  
Niagara Mohawk Power Corporation  
d/b/a National Grid  
300 Erie Blvd. West  
Syracuse, New York 13221  
(315) 428-6162

**Dated: October 17, 2005**

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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**In the Matter of the System Benefits Charge III**

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**CASE 05-M-0090**

**COMMENTS OF  
NIAGARA MOHAWK POWER CORPORATION**

Niagara Mohawk Power Corporation, d/b/a National Grid (“National Grid” or “Company”) provides these comments in response to the Order of Notice dated August 30, 2005, requesting comments on the Staff’s proposal of the same date to extend the System Benefits Charge (“SBC”) and SBC-funded programs beyond the current expiration date of June 30, 2006. The Company previously submitted comments in this case on March 3, 2005 (“Initial Comments”), and provides these further comments today to address Staff’s August 30, 2005, SBC proposal.

**I. Comment Summary**

In general, National Grid agrees with most aspects of Staff’s proposal. The Company concurs that SBC programs which provide cost-effective, long-term energy management and/or conservation solutions should continue to be supported. The Commission must consider, however, that although SBC programs may be cost-effective and produce tangential benefits for all customers (e.g., reduced emissions, improved peak load management and pricing, etc.), the bill impacts of the SBC affect all customers, and must be carefully considered, especially in light of other programs (such as the renewable portfolio standards, or RPS) that increase costs. In approving an SBC program for a period beyond June 2006, the Commission must use care to

assure the appropriate allocation of SBC funds in light of all the available programs and funding sources.

National Grid concurs with Staff's recommendation that the SBC program be level-funded going forward. There is no indication the current SBC is too low. Moreover, given the significant RPS revenues that will be charged to customers (approximately \$742 million statewide, between 2006 and 2013), which are to be used for renewable energy programs, level funding the SBC programs actually results in *greater effective funding* for non-renewable-related SBC programs.

In its Initial Comments, National Grid proposed that extension of the SBC beyond June 2006 be limited to three years. We continue to believe three years presents a reasonable time horizon for planning and program development purposes. However, the Staff's rationale for proposing a five-year extension is not necessarily unreasonable. Accordingly, the Company does not oppose the proposed five-year time-frame.

Likewise, the Company agrees with Staff's proposed SBC III revenue allocation, which would be updated to reflect 2004 electric operating revenues. The Company generally supports dedicating SBC funds as proposed in Staff's report—i.e., (1) Peak Load Management, Energy Efficiency and Outreach and Education; (2) Research and Development; and (3) Low Income assistance. However, the Company does not support the use of SBC collections to supplement further the funding of renewable energy programs that already have a significant and dedicated funding source under the RPS program. The Company also disagrees with Staff's proposal to eliminate or redirect current SBC funding used to support low income program implementation away from utilities, while continuing to require the utilities to perform the same

implementation functions. Eliminating an important funding source that supports an operating program and expecting the program to continue without impact is not reasonable.

With respect to a possible gas SBC, the Company supports obtaining more information from the ongoing statewide natural gas energy efficiency study and from other parties before determining whether such a proposal is appropriate. In addition, there are other areas the Staff report did not address that the Company feels should be reflected in future SBC programs. Most notably, National Grid believes it can directly assist in expanding customer participation in SBC programs, and facilitating the application process. As detailed below, the Company proposes that these incremental activities, which will benefit both customers and program administrators, be funded through the SBC.

## II. Specific Comments on Staff Proposal

### A. Program Structure

#### **5-year extension**

In its Initial Comments, National Grid recommended that extension of the SBC program beyond June 2006 be limited to three years. The Company continues to believe three years is a reasonable period to extend the SBC, and allows an adequate time horizon in which to implement cost effective initiatives. Three years also is a reasonable period in light of the substantial upward bill pressure customers are expected to experience from various sources, including increased commodity prices and the recently implemented RPS program.

Nevertheless, the Company does not believe a five-year extension is necessarily unreasonable; provided there is sufficient flexibility built into the program to allow for changes or adjustments to be made as a result of the actual program experience gained in the initial

years. So long as the Commission retains flexibility to modify specific programs or redirect funds to more cost effective programs, the concerns of a longer-term extension are reduced.<sup>1</sup>

### **Spending levels**

The Staff report recommends level funding of the SBC program, and proposes the following general fund allocation:

<b>Major Program Category</b>	<b>July 1, 2006 Through Dec. 31, 2006</b>	<b>Calendar Year 2007</b>	<b>Calendar Year 2008</b>	<b>Calendar Year 2009</b>	<b>Calendar Year 2010</b>	<b>Jan. 2, 2011 Through June 30, 2011</b>	<b><u>TOTALS</u></b>
Peak Load, Energy Efficiency, and O&E	\$38,124,333	\$76,307,364	\$76,297,501	\$78,269,845	\$78,504,669	\$39,250,781	<b>\$386,754,493</b>
R&D	\$16,000,000	\$32,000,000	\$32,000,000	\$32,000,000	\$32,000,000	\$16,000,000	<b>\$160,000,000</b>
Low Income	\$13,490,000	\$26,980,000	\$26,980,000	\$26,980,000	\$26,980,000	\$13,490,000	<b>\$134,900,000</b>
Administration, Evaluation and Fees	\$8,884,934	\$17,775,673	\$17,774,698	\$17,969,765	\$17,992,989	\$8,996,341	<b>\$89,394,400</b>
<b>TOTALS</b>	<b>\$76,449,267</b>	<b>\$153,063,037</b>	<b>\$153,052,199</b>	<b>\$155,219,610</b>	<b>\$155,477,658</b>	<b>\$77,737,122</b>	<b>\$770,998,893</b>

Although these levels appear reasonable at this stage, the need for flexibility mentioned above remains. For example, in the event it is shown that SBC funds are more effectively used providing energy efficiency services than supporting R&D; or the low-income budget is always fully spent, while spending on peak load reduction programs is weak, having the flexibility to re-deploy funds between programs would be important in optimizing SBC spending.

### **B. Proposed Program Goals and Recommendations**

As the Staff proposal notes, the original SBC goals established by the Commission were simple and clear: promoting energy efficiency, a cleaner environment, and reducing the burden of energy costs on low income citizens.

<sup>1</sup> This is also relevant in the context of the RPS program, where actual program experience will inform the most

For SBC III, Staff proposes a wide range of program goals, which include: improving system reliability and security by reducing energy demand; supporting innovative transmission and distribution technologies; enabling fuel diversity, including renewable resources; reducing the energy cost burden, particularly to low income households, by helping temper the effect of energy price volatility and providing access to cost-effective energy efficiency options; promoting increased energy efficiency; encouraging development of a renewable energy resources infrastructure; and optimizing energy performance of buildings and products; creating economic opportunity and promoting economic well-being by supporting emerging energy technologies; fostering competition; improving productivity; growing New York energy businesses; and helping to meet future energy needs through efficiency and innovation.

While each of Staff's proposed goals has merit in its own right, the breadth of goals creates a potential that the SBC III program will not be sufficiently focused. The Company believes goals more closely related to those originally adopted by the Commission provide clearer guidance for evaluating whether programs fit under the SBC umbrella to receive SBC funding. By sharpening the clarity of the goals, it will help establish a clear objective against which individual SBC programs can be assessed. Accordingly, the Company recommends the SBC III goals be modified as follows:

- Promoting Energy Efficiency.
- Promoting System Reliability and Security.
- Promoting a Cleaner Environment.
- Assisting Low Income Customers.

Sharpening the program goals will help drive the underlying efforts and avoid potential problems that unclear or diffuse objectives could create; but, will not necessarily limit flexibility with respect to individual program design. Clarifying and simplifying the objectives does not

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effective use of program funds in the later years.

unduly limit the nature of the programs that might be considered for SBC funding, nor does it suggest that individual programs must be designed to meet just one objective. To the contrary, individual programs may satisfy multiple goals (e.g., an energy efficiency program targeted at the low income customer population would satisfy the goals of promoting energy efficiency, assisting low income customers, and promoting a cleaner environment). However, more streamlined goals will help clearly define the objectives of the SBC program, and make it easier to determine if a specific proposed program is appropriate for SBC funding.

In addition to being clearer, the objectives proposed by the Company above intentionally omit mention of renewable energy initiatives. As mentioned previously, it is the Company's belief that renewable programs already have a dedicated and substantial funding source in the form of the RPS program. Therefore, it does not seem appropriate, nor in keeping with the creation of a separate RPS program, to divert SBC funds to renewable energy initiatives.

1. Program Consolidation

The Company agrees with Staff's recommendation that opportunities for program consolidation and more coordinated program marketing be fully explored. Additionally, based on input from customers and employees, National Grid believes there are also opportunities to simplify and streamline the application process for NYSERDA programs. Combined with the Company's proposed SBC-funded marketing and application assistance initiative (described below), these efforts could yield substantial benefit in the form of lower overall administrative costs, increased participation rates, and higher customer satisfaction with SBC programs.

2. Peak Load, Energy Efficiency, and Outreach & Education

As part of its regionally-based Business Services and Economic Development function, National Grid has built and maintained strong relationships and communication channels with a

large number of commercial and industrial customers. In addition, National Grid has extensive expertise and experience in delivering energy efficiency and outreach/education programs in both New York and New England. These relationships and experience could enable the Company to play a valuable role in identifying good candidates for SBC program applications, and assisting customers throughout the application and implementation process. The “hands-on,” regional approach the Company utilizes to deliver account management and economic development services to business customers lends itself perfectly to helping NYSERDA market SBC programs, and helping customers navigate the process on an individualized basis.

These incremental marketing and administration efforts, which the Company proposes be funded through the SBC, would make for even stronger programs in terms of meeting the basic SBC goals and maximizing customer satisfaction. In its Initial Comments, National Grid proposed that SBC funds be allocated annually to cover the incremental staffing and marketing costs associated with these activities. Additionally, as discussed further below, the Company believes there is now an opportunity to extend this concept to include the customer outreach/education (O&E) necessary to implement real-time pricing (RTP) for the Company’s S.C. 3 customers. SBC funding for such O&E activities would cover efforts such as meetings with customers (both in groups and in one-on-one settings), and development/production of informational materials such as customer-specific rate analyses, which are necessary to the successful implementation of a RTP program.

The Company agrees that demand response programs remain a critical element of the SBC program portfolio, and that an emphasis should be placed on the expansion of retail time sensitive electricity pricing. Such initiatives could produce substantial societal benefits across New York State, in the form of improved market efficiency, lower long-term wholesale prices,

and regional economic benefits related to the retention of jobs and income throughout the region. In its recent Order Instituting Further Proceedings and Requiring the Filing of Draft tariffs (Case 03-E-0641, Proceeding on Motion of the Commission Regarding Expedited Implementation of Mandatory Hourly Pricing for Commodity Service), the Commission observed that “if a sufficient number of customers reduced load in response to RTP, besides benefiting themselves, the reductions in peak period usage would ameliorate extremes in electricity costs for all customers. Success in the [RTP] marketing plans therefore would realize the societal goal of lower electricity costs for all customers.”<sup>2</sup>

In that same order, the Commission directed National Grid to file the draft tariffs, metering plans, and outreach/education plans necessary to extend real time pricing to its S.C. 3 customers. Extending RTP to these roughly 4,000 commercial and industrial customers represents a massive effort in terms of incremental investment and labor. The project would involve a large scale deployment of interval metering equipment, and an equally broad outreach effort aimed at educating these customers -- many of whom are relatively small, unsophisticated energy users who tend to be unfamiliar with the mechanics and potential value of time-of-use pricing.<sup>3</sup> The Commission recognized these hurdles in the Order, noting that “[t]here are, however, barriers to overcome in expanding RTP to Niagara Mohawk’s S.C. 3 customers. Interval meters must be installed at all customers in the service classification so that they can match their hourly consumption against hourly prices. Moreover, many of these customers are

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<sup>2</sup> Order Instituting Further Proceedings and Requiring the Filing of Draft Tariffs. Case 03-E-0641, September 23, 2005, at 3.

<sup>3</sup> The Company’s SC-3 rate class extends down to customers with monthly peak demands as low as 100 kW. Examples of such customers include smaller grocery chains, local machine shops, metal fabricators, retail stores and office buildings.

<sup>3</sup> Order Instituting Further Proceedings and Requiring the Filing of Draft tariffs (Case 03-E-0641, Proceeding on Motion of the Commission Regarding Expedited Implementation of Mandatory Hourly Pricing for Commodity Service), page 5

smaller and less well-informed than the larger customers previously exposed to RTP.”<sup>4</sup> The Commission further recognized that a significant outreach and education effort would be necessary to meet the needs of this group of customers.

National Grid believes the recently ordered RTP program fits well with the SBC’s energy efficiency and peak load reduction objectives, and will provide strong synergies with NYSEERDA’s ongoing efforts to create social benefits in these areas. Accordingly, the Company proposes that the cost of the upcoming S.C. 3 RTP effort be funded through the SBC. This would include the cost of purchasing and installing interval metering equipment, and implementing a comprehensive outreach and education plan aimed at S.C. 3 customers. The Company’s preliminary estimate of costs associated with these efforts ranges from \$2.0 million to \$2.5 million. In addition, because this would be the first deployment in the State (and perhaps in the country) of RTP down to the 100 kW level, the Company also recommends using SBC funds to perform a comprehensive evaluation of the program.

### 3. Research & Development

The Company agrees that transmission and distribution research/development represents an appropriate use of SBC funds, and that such efforts should be focused on promoting the safety, reliability and efficiency of the electric grid. Specifically, T&D research and development should focus on reducing the cost of building and upgrading efficient T&D facilities. With industry restructuring, financial uncertainty has been created for utilities with respect to projects involving the upgrade of existing transmission facilities that do not benefit the utility's own customers, and the construction of interconnections for new generating plants. As a result, transmission projects that are in the best interest of New York State as a whole might not be undertaken. R&D projects that focus on the development and demonstration of

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<sup>4</sup> *Id.* at 6.

technologies that reduce the cost and/or cycle time of transmission facility construction and upgrades will help move projects forward by reducing the risk to the transmission owner and its customers by shortening project implementation and payback periods. A secondary benefit would be to the developers of small to medium sized generation projects, where the cost of interconnection often is the deciding factor as to whether or not a given project is economical.

In the distribution area, R&D should be focused on the development of enabling technologies to reduce the cost of deploying automation and control technologies on both sides of the customer meter. For example, the deployment of a low-cost infrastructure communications technology could enable price signals to be sent to all classes of customers, improve distribution network management, automate load management during high use periods or emergencies, provide remote control of street lighting, and improve early response to storms and major outages. In short, the potentially broad benefits that could result from R&D investments relating to T&D warrant SBC support for such efforts.<sup>5</sup>

#### 4. Low Income Programs

National Grid agrees that low income programs remain a critical element of the SBC program portfolio. However, the Company strongly disagrees with Staff's recommendation to eliminate SBC funding for the cost of referring customers to NYSERDA's EmPower New York<sup>SM</sup> low income program. Staff's proposal characterizes the referral process as being "established and working effectively as an integrated part of the utilities' customer service function...." While the Company agrees the referral process is effective, these activities require

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<sup>5</sup> National Grid currently is participating in an Advanced Composite Overhead Conductor demonstration, as well as a Superconducting Underground Distribution Cable project. Although potentially beneficial, the commercial and business structures of the regulated electricity industry do not necessarily encourage investment in pure R&D efforts. SBC support for such efforts is important if they are to continue and expand.

ongoing, dedicated resources that are not readily integrated into the Company's basic customer service function.

The costs of maintaining an effective EmPower New York<sup>SM</sup> customer referral system include labor costs associated with Customer Service Center staff, recurring information technology costs, and other labor and non-labor costs associated with regular vendor and customer interactions. Staff contends that the current \$90,000 annual retention of SBC funds is no longer needed; on the contrary, the Company's ongoing costs likely exceed that amount, and the corresponding benefit provided by the Company exceeds the cost. In addition, Section 1.2.9 of the Merger Joint Proposal approved in Case No. 01-M-0075 provides:

SBC funding currently supports the energy efficiency service component of Low Income Customer Services. Niagara Mohawk may 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.

National Grid continues to incur direct costs associated with administering this important NYSERDA low income program, and therefore it is reasonable to expect that these efforts continue to be funded through the SBC.

##### 5. Administration and Evaluation

The administration, evaluation and fees portion of the proposed SBC-III program represents approximately \$18 million per year, or 11% of the annual budget. The Staff's proposal projects this amount to remain steady through the entire program period. Although the Company does not provide any specific proposal in this regard, the Company does recommend that NYSERDA be encouraged to explore ways to increase its efficiencies in this area so as to reduce administrative expenditures during the program period so that more SBC funds can be spent directly on beneficial programs.

6. Gas SBC

National Grid agrees with Staff's recommendation that a final determination on the desirability of creating a natural gas SBC be withheld until after the results of the statewide gas energy efficiency study are made available. Furthermore, the Company feels that the utilities and other interested parties should have ample opportunity to provide input on the study results prior to any Commission action on this issue.

III. Conclusion

The Company appreciates the opportunity to comment on the Staff proposal for SBC-III, and we look forward to working with the Commission, Staff and other stakeholders to successfully implement SBC-III as described, above.

Respectfully submitted,

**NIAGARA MOHAWK POWER CORPORATION**

By: \_\_\_\_\_  
Carlos A. Gavilondo  
General Counsel  
Niagara Mohawk Power Corporation  
d/b/a National Grid  
300 Erie Blvd. West  
Syracuse, New York 13202  
(315) 428-6162

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