Case 06-E-1433

New York State
Department of Public Service Staff
Proposed Revenue Decoupling Mechanism

October 19, 2007

Background

In its April 20, 2007 Order,[1] the Commission directed the utilities to develop proposals for true-up based delivery service RDMs. The RDM Order stated that the RDMs "should incorporate the following factors:

- The mechanism should be designed to true-up forecast and actual delivery service revenues for a given time period.
- The mechanism should be designed to prevent gaming by the utility (e.g., shifting customers to different classes).
- The recovery of any net lost revenues component of the mechanism should not, in and of itself, produce inter-class revenue reallocations between customer classes (such reallocations should only be made purposefully after considering a current fully-allocated cost of service study).
- All remaining design and implementation issues should be addressed in individual rate proceedings." (RDM Order, p. 16)

The Commission also identified a number of design and implementation issues that should be considered in developing an effective RDM, such as: whether the RDM needs to be applied to all or only some customer classes; whether allowed revenues should be calculated on a per customer basis rather than a total revenue basis; what, if any, indices are incorporated in the RDM; and, whether sales fluctuations attributable to weather should be included/excluded from the RDM (RDM Order, p. 8).

The RDM Order noted that requiring the utilities "to develop and implement mechanisms that true-up forecast and actual delivery service revenues would significantly reduce or eliminate any disincentives caused by the recovery of utility fixed delivery costs via volumetric rates or marginal consumption blocks" (RDM Order, pp. 2-3). Staff's believes that its RDM proposal satisfies the Commission's spirit and intent of the RDM Order.

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[1] Cases 03-E-0640 and 06-G-0746, Proceeding on Motion of the Commission, Order Requiring Proposals for Revenue Decoupling Mechanisms (issued April 20, 2007) ("RDM Order").

Summary of Staff's RDM

The Staff recommended RDM for Orange and Rockland's electric operations was designed to meet the single goal of reconciling actual revenues to forecasted revenues. Accordingly, the Staff RDM proposal, delineated below, is a total revenue RDM rather than a "per customer" RDM. Staff believes that performance incentives, including any specifically identifiable incentives for energy efficiency programs or economic development, should not be incorporated or intertwined within an RDM.[2] Further, an RDM need not take on the function of providing incentives for economic development; it should instead be limited to the Commission's goal of eliminating or substantially reducing the rateable linkage between sales and revenues and/or profits, and the inherent utility disincentive this might otherwise induce when end-use customers choose to pursue energy conservation initiatives.

Staff does not believe that the Company should be allowed to retain increased revenues associated with customer growth and instead recommends that total delivery revenues be trued-up on a class-specific basis, in part because a strong potential exists for gaming the estimated number of customers with a per-customer RDM model. Under Staff's proposal, the Company would not be entitled to retain increased revenues related to customer growth in excess of a forecast, thus the potential for gaming would be eliminated. In addition, under the Company's proposal, a forecast is made of the number of customers, sales and the average net revenues per customer, for each service class. If the actual number of customers in a service class deviated from the forecasted number, the Company would be compensated (or must refund) the **average** revenue for each customer over (or under) the forecasted level, regardless of how large or small the number of actual customers. This provides the Company with an *ex ante* incentive to under forecast the number of customers. Again, with the total revenue RDM, that incentive would be eliminated.

Orange and Rockland claims that a revenue per-customer RDM would encourage economic development. Staff's proposed RDM would not apply to the Company's negotiated contract customers. Thus, the Company would still be in a position to encourage customer growth and retention by use of its most potent and direct influence, the price of its product.

Staff agrees with the Company's recommendation in its September 6, 2007 filing (O&R filing, p. 11) to exclude S.C. No. 23 – Individually Negotiated Contracts and S.C. No. 25 - Standby Service from the RDM. The service classes subject to exclusion under Staff's proposal, however, is even more expansive adding to S.C. 23 and 25 lighting customers (S.C. 4,5 &16) and Buyback Service (S.C. 15). The majority of revenues recovered from the lighting classes are from fixture charges. As more energy efficient fixtures are placed in service, a corresponding fixture charge will have to be designed and implemented. Thus, there is little or no potential for net lost revenues from the lighting classes.

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[2] The RDM Order does not provide for payments to the utilities as an incentive for implementing the RDM, and it does not state that the utilities' RDM and energy efficiency (EE) program are to be integrated. Thus, the issue of any incentive payments to the utility should be limited to the EE program.

Specific provisions of Staff's RDM Proposal

- RDM is a total revenue reconciliation-based mechanism.

- The following service classes and sub-classes will be subject to the RDM:

  SC 1 – Residential
  SC 2 – General Secondary or Primary
  Non-Demand
  Demand Metered – Small
  Demand Metered – Large
  Primary
  SC 3 – General Primary
  SC 9 – General Commercial Service over 1000 kW
  SC 19 – Residential TOU
  SC 20 – General Secondary TOU
  SC 21 – General Primary TOU
  SC 22 – General Industrial Service over 1000 kW

- The following service classes will not be subject to the RDM:

  SC 4 – Public Street Lighting
  SC 5 – Traffic Signal Lighting
  SC 15 – Buyback Service
  SC 16 – Private Area Lighting
  SC 23 – Individually Negotiated Contracts
  SC 25 – Standby Service

- Actual delivery revenue will be compared, on a monthly basis, with the allowed delivery revenue for each service class or sub-class subject to the RDM.

- Actual delivery revenue, determined for each service class or sub-class on a monthly basis, will be calculated as the sum of billed revenue derived from customer charges and delivery charges, as defined in each service classification, plus billed revenue derived from the Western Load Pocket Permanent Mitigation Component of the Energy Cost Adjustment (WLP ECA Component). Billed revenue derived from the WLP ECA Component will be determined for each service class or sub-class by multiplying billed kWh deliveries by the WLP ECA Component as specified on the Company's Statement of Energy Cost Adjustment.

- Actual delivery revenues will not include revenues derived from the RDM Adjustment, as described below.

- Allowed delivery revenues, or delivery revenue targets, for each service class or sub-class are based on the revenue forecast submitted by the Company, as adjusted by Staff, in Case 06-E-1433 for the twelve months ending June 30, 2008, and are attached. At the conclusion of Case 07-E-0949, the delivery revenue targets would be reset as of July 2008 to reflect the revenue requirement(s) and rate year(s) adopted in that case.

- Delivery revenue targets for each service class and sub-class will be reset whenever there is a Commission approved change in the delivery revenue forecast used to determine the Company's Commission approved revenue requirement. In addition, delivery revenue targets will be adjusted to reflect any Commission approved delivery rate changes that occur during a rate plan.

- Adjustments to the delivery revenue targets may be necessary if new legislation or regulation results in a change in delivery revenues for some or all service classes or sub-classes.

- The Company will, on a monthly basis, compare actual delivery revenues to allowed delivery revenues. If the monthly actual delivery revenues exceed the allowed delivery revenues, the delivery revenue excess shall be accrued for refund to customers at the end of the annual RDM period. Likewise, if the monthly allowed delivery revenues exceed the actual delivery revenues, this delivery revenue shortfall shall be accrued for recovery from customers at the end of the annual RDM period.

- The delivery revenue excess/shortfalls for each service class or sub-class will be refunded/surcharged to customers in that service class or sub-class through an RDM Adjustment applicable during a subsequent twelve-month period.

- On a monthly basis, interest at the Commission's rate for other customer provided capital will be calculated on the average of the current and prior month's cumulative delivery revenue excess/shortfall (net of state and federal income tax benefits).

- If at any time the total cumulative delivery revenue excess/shortfall for all of the Company's service classifications subject to the RDM exceeds $3 million, the Company will implement interim RDM Adjustments by service classification on no less than 15-days notices. These interim RDM Adjustments would be subject to reconciliation at the end of the annual RDM period.

- The Company will file a Statement of RDM Adjustments during the month following the end of an annual RDM period, or if necessary, during the month prior to implementation of interim RDM Adjustments, and no less than 15 calendar days before the date on which the statement is proposed to be effective.

- The RDM Adjustment shall be assessed on a kWh basis.

- If for any reason, a service class or sub-class, as defined for the purposes of the RDM, no longer has any customers, the delivery revenue target for that discontinued service class or sub-class, plus any delivery revenue excess or shortfall, will be reallocated to other remaining service classes or sub-classes to provide for equitable treatment of revenue deficiencies or surpluses from the discontinued service class or sub-class. The Company will consult with Commission Staff regarding such reallocation.