CASE 07-E-0949
Proceeding on Motion of the Commission
as to the Rates, Charges, Rules and Regulations of
Orange and Rockland Utilities, Inc. for Electric Service

SUMMARY OF APRIL 18, 2008 JOINT PROPOSAL[1]
(Prepared April 21, 2008)

1. SIGNATORIES

Those supporting the Joint Proposal (the Signatories) include the Company, Department of Public Service Staff, the Town of Ramapo (the most populous town in Rockland County), and, in large part, the Small Customer Marketer Coalition and the Retail Energy Supply Association. It is not known yet what position will be taken on the Joint Proposal, if any, by the State Consumer Protection Board, the County of Rockland Attorney, the Legislature of Rockland County, or any of the several other energy service companies and others that have been granted active party status.

2. FIRST YEAR REVENUE REQUIREMENT

The Signatories suggest that a delivery service annual revenue increase of $23.287 million is justified. As of the end of the first round of evidentiary hearings in February 2008, the Company was seeking approximately $44.369 million and DPS Staff was advocating an increase of $19.337 million for that year, both subject to further updates.

3. SECOND AND THIRD YEAR REVENUE REQUIREMENTS

The Signatories contend second and third year annual revenue increases of $9.526 million and $4.057 million are warranted. DPS Staff did not previously take a position on revenue requirements for these years but it is expected to do so soon. However, the Company had proposed annual

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[1] This is intended to be a high-level summary of key terms proposed in the April 18, 2008 Joint Proposal. If any material errors or oversights are detected, the version of this summary posted on the DPS website will be modified.

revenue increases of $10.0 million and $5.1 million for these two years.

4. LEVELIZING RATE IMPACTS

Instead of proposing rate changes to generate additional annual revenues of $23.287 million, $9.526 million, and $4.057 million, the Signatories recommend three annual revenue increases of $15.591 million each to ameliorate bill impacts. The $15.591 million revenue increase for the first year would be an increase of 2.52% over total forecast electric revenues, including revenues for commodity sales to full service and retail access customers (see JP, Appendix C, p. 1). The $15.591 million increase for the third year would be recovered in part in base rates and in part through a one-time surcharge.

5. COMPRESSION OF FIRST YEAR RATE RECOVERY

It is proposed that the first year revenue increase go into effect on August 1, 2008 rather than in early July 2008. As a result, the first year revenue increase would be recovered in only 11 months.

6. REVENUE FORECAST

The revenue requirement calculations for the three years reflect annual sales growth rates of 1.3%, 1.7%, and 1.7% in the three rate years. The number of electric customers is forecast to increase at a rate of .8% per year. It is also proposed that actual and target delivery revenues for numerous service classifications (excluding street, signal, and private area lighting as well as buyback, individually negotiated contracts, and standby service) be compared on a monthly basis for each class with any excess or shortfall per class at the end of each rate year passed back to or recovered from customers. This total revenue per customer class “Revenue Decoupling Mechanism” is similar to one the Commission recently adopted for Consolidated Edison Company of New York, Inc.

7. PLANT FORECAST

The revenue requirement calculations for the three years are based in part on assumptions about growth in the Company’s electric net plant balances (plant in service less depreciation). If the actual net plant balances are less than the cumulative target balances, the revenue requirement associated with the difference will be calculated and deferred for the future benefit of customers.

8. EXPENSE FORECAST

The revenue requirements for the three years are based in part on projections of Company expenses. The Signatories propose that the amounts allowed in rates for some expenses be compared to the actual expenses and that the differences be recovered from (if actuals are higher than projected) or deferred for the future benefit of customers (if actuals are lower then projected). Expenses proposed to be subject to such reconciliation include those for environmental remediation, 100% of any differences in property taxes due to changes in tax rates, 86% of any differences in property taxes due to assessment changes, pensions and other post-employment benefits, research and development, and low-income discounts. Major storm costs would also be subject to a reconciliation of projected and actual expenses.

It is also proposed that other expenses be subject to reconciliation, but only if certain conditions are met. For example, one pool of expenses is projected to increase cumulatively by 12% over three years on account of inflation. This pool includes, among other things, direct labor, employee and other insurance, and other operation and maintenance costs (see JP, Appendix J). If inflation increases by more than 4% per year and if the Company earns a return on equity less than 9.4%, the incremental revenue requirement associated with the higher actual inflation rate for this pool would be deferred for future recovery. Similarly, if the Company incurs increased debt costs (as a result of having to refinance tax-exempt debt) or, experiences increased capital and operating expenses, for relocating its property now on the site of the Lovett Generation Station owned by Mirant, such costs would be deferred for future recovery from ratepayers.

There is also a proposed conditional limitation on the amount of costs that could be deferred for future recovery from ratepayers. To the extent the Company earns more than 10.2% on equity in a year, up to 50% of the Company’s share of equity earnings above 10.2% (see point 10 below) would be used to offset amounts that would otherwise be deferred for future recovery, provided the effect of this offset would not reduce the Company’s equity earnings below 10.2% (see JP, pp. 29-30).

9. THE COST OF CAPITAL

The revenue requirements set forth in the Joint Proposal are based in part on the Company having a weighted average cost of capital -- including debt, customer deposits, preferred stock and common equity -- of 7.69% after taxes (see JP, Appendix A, p. 3 of 5). This reflects a 9.40% post-tax allowed return on common equity.

10. EARNINGS SHARING

To the extent the Company’s three-year post-tax return on common equity for NY electric service exceeds 10.2%, the revenue requirement impacts would be deferred and allocated as follows:

Cumulative Equity Return	Allocation
>10.2%	50% Customers/50% Company
>11.2%	75% Customers/25% Company

Equity earnings up to and including 10.2% would be retained 100% by the Company.

11. ALLOCATION OF REVENUE REQUIREMENT AMONG CUSTOMER CLASSES

A study, as adjusted to reflect some transformer costs as customer-related costs, suggests that some customer classes are currently paying more than the cost to serve them, while other customer classes are paying less than the cost to serve them. The Signatories propose that these revenue-cost imbalances be eliminated gradually over three years, subject to the proviso that customer bill impacts should be mitigated by limiting each customer class increase to not more than 1.5 times and not less than .5 times the overall percentage increase. The primary beneficiaries of the proviso are public and private street lighting customers at the expense of SC 1 residential and SC 2 secondary service customers (see JP, Appendix C, p. 3, fourth and fifth columns from the right).

12. RATE DESIGN

Individual rate elements are proposed to be adjusted in a manner that would generate the needed revenues for each class. Such rate elements include customer, demand, and usage charges. It is proposed that customer charges paid by residential, primary, large commercial, and industrial classes be increased by two times the applicable class percentage increase. It is also proposed that demand charges that apply for certain service classifications increase by one times the applicable class percentage increase. The balance of the delivery revenue requirement for each class would be recovered by increasing usage charges on a cents/kWh basis as necessary.

The Merchant Function Charge, which recovers costs related to commodity procurement by the Company, is proposed to be altered to include commodity-related credit and collections costs, which would then be excluded from delivery charges where they are currently collected. The Merchant Function Charge applies only to customers that purchase commodity from the Company. Specific Bill Issuance and Payment Processing Charges are also proposed. These also apply only to customers that purchase commodity from the Company or who elect to be billed separately for utility delivery and energy service company commodity services. Those customers enrolling with energy service companies for commodity and who are billed by the Company for both, have their billing charge paid for by the energy service company.

13. SERVICE FEES AND OTHER TARIFF CHANGES

The Signatories propose a number of changes in service fees, including those for the reconnection of electric service, the reinspection of customer equipment, bill collection for non-residential customers, the suspension of electric service at the request of an energy service company, and the preparation of bundled bill calculations for energy service companies. Tariff changes are also proposed concerning the manner in which the Competitive Transition Charge is calculated, adding flexibility concerning the start of budget billing years, and as to the terms and conditions of various lighting services.

14. PROGRAMS

a. ENERGY SERVICE COMPANY REFERRAL PROGRAM

It is proposed that the Company be required to perform a study, within 6 months of the Commission's decision in this case, concerning the feasibility of expanding its current energy service company referral program, PowerSwitch. It is also proposed that any changes in this program adopted thereafter be implemented solely on a prospective basis with any incremental costs recovered from energy service companies or deferred for future recovery from ratepayers.

b. LOW-INCOME PROGRAM

It is proposed that the Company continue with the low-income program in effect today and as modified in 2007 in Case 06-E-1433. Those modifications included increasing from $5.00 to $10.00 the monthly bill credit for space-heating customers that are HEAP recipients and expanding from 5 to 12 months per year the applicability of the $5.00 monthly bill credit for non-heating customers who receive HEAP grants. The discounts are expected to average approximately $325,000 per year (see JP, Appendix G).

c. ENERGY EFFICIENCY PROGRAM

the Company will submit an Energy Efficiency Plan in June 2008, based on the results of a market potential study being prepared now. The Plan's terms would be finalized in the Energy Efficiency Portfolio Standard Case (Case 07-M-0548). However, it is proposed that the Company begin to recover $4 million per year, through a non-bypassable surcharge, to begin funding an Energy Efficiency Plan.

d. CUSTOMER SERVICE AND RELIABILITY PERFORMANCE PROGRAMS

It is proposed that the Company be subject to revenue losses of varying amounts as an incentive to achieve good results on (1) an annual residential customer assessment survey; (2) an annual commercial and industrial customer assessment survey; and (3) customer complaint rates.[2] It is also proposed the Company be required to forgo the revenues associated with 10 to 20 bases points in equity return each (or one to two tenths of a percentage point) each for failure to achieve a calendar year annual "Interruption Duration Target" of 1.70 hours/interruption and a calendar year "Interruption Frequency Target" of 1.36 times per customer.

15. SETTLEMENT OF PENDING LITIGATION

Under the terms proposed, the Company would conditionally withdraw two pending court appeals, stemming from two Commission orders issued in Case 06-E-1433. The condition is that the Commission adopt a three year rate plan consistent with the terms proposed by the Signatories.

16. PROPERTY TAX REFUNDS

It is proposed that the Company be allowed to retain 14% of any property tax refunds awarded during the three rate years, whether such amounts are recovered during the three years or thereafter.

Gerald Lynch
April 21, 2008

[2] The residential and commercial/industrial survey instruments that would be used each calendar year are included in the Joint Proposal, Appendix M, following page 3.