BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Iberdrola, S.A. and Energy East Corporation

Case 07-M-0906

January 2008

Prepared Testimony of:

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Q. Please state your full name and business address.

A. My name is Colonel Dickens and my business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. By whom are you employed and in what capacity?

A. I am employed by the New York State Department of Public Service (NYSDPS) as a Utility Engineer 3 in the Office of Gas, Water, and Electricity.

Q. Please describe your educational and professional background.

A. I have a B.S. in Ceramic Engineering from Alfred University. I also have an MBA from Sage College. I have testified in numerous cases before the New York Public Service Commission.

Q. What is the purpose of your testimony in this proceeding?

A. I am proposing the following:

1) New accountability provisions for NYSEG and RG&E capital expenditure programs for 2009 and 2010.

2) A reduction to NYSEG's proposed lost revenues from Standby customers.

3) An electric Revenue Decoupling Mechanism

for both NYSEG and RG&E for the calendar year 2009.

CAPITAL EXPENDITURES

NYSEG

Q. Please describe the recent history of capital expenditures at NYSEG.

A. In Case 05-E-1222, rates were set for the 2007 rate year based on an electric capital budget of about $92 million. Through September 2007, nine months, actual expenditures were about $60 million. In NYSEG's previous rate plan, for the five year period 2002 through 2006, a total electric budget of $355 million was allowed. NYSEG actually spent $465 million exceeding its budget, by over 30%, primarily due to the improper capitalization of computer software costs that were not included in the forecast of expenditures.

Q. What expenditure levels is for NYSEG forecasting for the calendar years 2009 and 2010?

A. As part of the recent financing filing approved in Case 07-M-0891, a total electric capital budget of about $285 million was forecast for

2009 and 2010, after Advanced Metering Infrastructure expenditures were removed.

Q. How does that proposed budget compare with NYSEG's actual annual average expenditures for the period 2002 through September 2007?

A. The total proposed budget for 2009 and 2010 is about $100 million more than average actual expenditures for a two year period. The difference is primarily due to the addition of the proposed Ithaca transmission project.

Q. Please describe NYSEG's current and past accountability provisions regarding capital expenditures.

A. NYSEG currently has no accountability provisions other than quarterly reporting of the status of actual expenditures compared to its 2007 rate year budget. Accountability provisions were in place during its previous rate plan that set a target expenditure level for the five years 2002 to 2006. That plan provided that if NYSEG's actual capital expenditures were $40 million less than the $355 million target at the end of the plan's term, a rate payer credit would have been set at 25% of any excess over the $40 million shortfall.

Q. Is staff proposing an accountability provision for 2009 and 2010?

A. Yes. In an effort to create an additional merger benefit, staff is proposing an accountability provision. If actual capital expenditures fall short of the forecasted targets, NYSEG should defer the carrying costs on the budgeted shortfall for the future benefit of customers. The revenue requirement impact will be calculated by applying the company's annual carrying charge to the annual shortfall from the forecasted annual average budget amount. In addition, NYSEG should be required to provide staff with its company approved annual electric budget, detailed by project, for each of the next three years within two months of the filing date of a decision in this proceeding, and to file associated actual expenditures explaining any variances within two months of the end of each calendar year.

RG&E

Q. Please describe the recent history of capital expenditures at RG&E.

A. RG&E's current rate plan for the period from 2004 through 2008 was based on a total expenditure level of $280 million for the five year term. Through September 2007, RG&E has spent about $294 million, exceeding its entire budget for the five year plan in its fourth year, primarily due to the Rochester Transmission Project (RTP). Costs for that project have significantly exceeded the forecast made in the rate plan, by over 60% (see Response IBER-0211 to IPPNY-20).

Q. What expenditures has RG&E forecast for the years 2009 and 2010?

A. In a pending financing petition recently filed in Case 07-M-1194, RG&E forecasts total electric capital expenditures for 2009 and 2010 at $348 million. The petition has not been approved at this time. However, staff recommends in this case the $348 million forecast be reduced to $182 million by removing the costs of the

Advanced Metering Infrastructure project, which is consistent with the decision approving NYSEG's recent financing petition, and removal of the Russell Station closure and repowering project, which is consistent with Staff's recommendation in this case that RG&E divest the Russell plant site.

Q. How does the proposed adjusted budget of $182 million compare with actual average annual expenditures for the period 2004 through September 2007?

A. The proposed adjusted total expenditures for 2009 and 2010 are about $25 million more than recent actual average expenditures for a two year period. If the RTP is removed from the actual expenditures, the total proposed expenditures for 2009 and 2010 are about $85 million more than the actual average two year expenditures. The increase of $85 million is primarily due to proposed major projects at several existing substations.

Q. Please describe RG&E's current accountability provision for capital expenditures.

A. RG&E currently has an accountability provision based on an expenditure level target of $280 million for the years 2004 to 2008. If total actual expenditures at the end of the rate plan fall short of the target by more than $25 million rate payers will receive a credit of 25% of any excess over the $25 million shortfall. If actual expenditures exceed the $280 million target total amount by more than $25 million, rate payers will be charged 11% of any excess over the $25 million amount that has not accrued allowances for funds used during construction (AFUDC).

Q. Do you have any concerns with RG&E's accrual of carrying charges on the excess capital expenditures during the current rate plan should it exceed the target by $25 million?

A. Yes. I have concerns regarding the magnitude of RG&E's potential excess capital expenditures. The RTP is seriously (almost $50 million/60%) over budget. This is particularly troubling given that RG&E has alleged in filings with the NYISO that additional transmission will be required after Russell Station is shut down and the RTP is completed. In addition, it appears the company may have improperly included software in its actual capital expenditures. These questions need to be resolved before RG&E establishes the carrying charges to ratepayers. RG&E should file with the Commission a detailed justification for the capital expenditure variances for Commission review before it accrues any carrying charges.

Q. Is staff proposing a new accountability provision for 2009 and 2010?

A. Yes. If actual 2009 and 2010 expenditures fall short of staff's adjusted forecasts, RG&E should defer a credit equivalent to the carrying costs on the budget shortfalls, for the future benefit of customers, similar to the mechanism proposed earlier for NYSEG. Filing requirements similar to those proposed earlier for NYSEG should be imposed on RG&E for its company-approved budgets and actual expenditures.

Q. Why is staff proposing an accountability mechanism that asymmetrically provides for establishing a credit for ratepayers, but not for the company?

A. An asymmetrical mechanism avoids creating an incentive for company to overspend on construction, since it will not receive a credit, which would be equivalent to a carrying charge on any excess plant that is built. The company is treated fairly, because, under the Uniform System of Accounts (USOA), eligible capital expenditures in excess of the proposed target would accrue carrying charges in the form of allowances for funds used during construction (AFUDC).

Q. Is Staff proposing to change rates based on the budget forecasts and mechanisms discussed above?

A. No.

Q. Would it be possible for NYSEG and RG&E to spend less than the forecasted budgets and be required to credit to customers amounts that the companies did not initially charge ratepayers, because the accountability provisions are based on forecasted budgets that exceed the budget amounts currently supported in rates under prior rate case forecasts?

A. No. Accounting and Finance Witnesses are testifying that both NYSEG and RG&E currently are achieving excess earnings. Through those earnings, customers are currently supporting the higher construction budgets forecasted in the proposed accountability mechanisms. Even if the companies were to file rate cases where the higher forecasts of construction budgets were approved, overall rates would not increase and could decrease once the over earnings are removed.

STANDBY LOST REVENUES

Q. Has NYSEG incurred lost revenues because existing standby service customers have been charged standby rates that are lower than the rate they would have been charged under the otherwise-applicable tariff rate?

A. Yes. NYSEG has reported in annual compliance filings, for the years 2004 through 2006, total lost revenues of $8,101,862. NYSEG has charged those amounts against the Asset Sales Gain Account (ASGA) as allowed by the Commission in Case 02-E-0779.

Q. Does staff agree with the amount of lost revenues that NYSEG claims?

A. No. NYSEG has substantially overstated its lost revenues.

Q. How did NYSEG calculate its lost revenues.

A. NYSEG compared the actual revenues it received from each standby customer with the revenues it would have collected had the customer been charged their otherwise-applicable service class rate for each year from 2004 through 2006.

Q. Why does staff believe that NYSEG overstated its lost revenues?

A. For Cornell University, the company's largest standby customer, NYSEG calculated the lost revenues for the first three months of 2004 using S.C. 7 Transmission High Load Factor (HLF) rates as the otherwise applicable service class. But NYSEG subsequently used the S.C.7 Transmission non HLF rates as the otherwise applicable rate from April 2004 through December 2006. Staff believes that NYSEG should have continued to use the S.C. 7 HLF rates as the otherwise applicable rate for all three years.

Q. Why did NYSEG change the otherwise applicable rate from the HLF rate to the non HLF rate.

A. NYSEG believes that, after Cornell transferred to the standby rate, its load factor fell below the threshold 68% load factor the HLF tariff requires for classification as an HLF customer.

Q. Why does staff believe that NYSEG should have continued using the HLF rate as the otherwise applicable rate?

A. Cornell was a HLF customer when it moved to the standby rate. The rate in place at the time of transfer to standby rates establishes the otherwise-applicable rate for purposes of making the standby lost revenue calculation. That calculation is intended to capture the difference between the revenues the company would have received had the customer remained on its existing rate classification and the revenues it actually received under the standby rate. NYSEG should not be permitted to rely on events subsequent to Cornell's transfer to standby rates to reclassify it as a non-HLF customer for the purpose of performing the standby lost revenue calculation.

Q. Does NYSEG actually lose any revenues in this case if Cornell is considered a HLF customer, regardless if its load factor falls below 68%?

A. No. Cornell actually moved from the HLF rate to standby service soon after rates were set fro NYSEG, wherein Cornell was classified as an HLF customer, and rates were set accordingly. Therefore, NYSEG's other customers were already supporting the revenue difference between a non-HLF rate and an HLF rate for Cornell. To now include those revenue differences in its standby lost revenue calculation is a double count.

Q. What do you recommend?

A. NYSEG's overstatement of its standby lost revenues results in its excessive assessment of charges against the ASGA. In his testimony, staff witness Benedict makes recommendations regarding other overstated charges NYSEG has also assessed against the ASGA. The overstated standby lost revenues should be treated as he recommends for the other overstated charges.

Revenue Decoupling Mechanism

Q. Does staff recommend a Revenue Decoupling Mechanism (RDM) be developed and eventually implemented for NYSEG and RG&E?

A. Yes. NYSEG and RG&E should be directed to file an RDM proposal for review by the parties and approved by the Commission for implementation on January 1, 2009, to be in effect for calendar year 2009.

Q. What type of RDM is staff proposing for both electric utilities.

A. Staff recommends a total delivery revenue reconciliation mechanism be designed and implemented for each customer service class, with the exception of the lighting, buyback, individually negotiated contract, and standby service classifications at this time.

Q. Please describe generally the RDM mechanism.

A. Forecasted delivery revenue targets, for each service class or sub-class will need to be established for each month of calendar year 2009. On a monthly basis, going forward, a comparison between delivery revenues booked and the monthly targets established herein will be made. The monthly delivery revenue excesses or shortfalls thereby recorded for each service class or sub-class will be accumulated for future collection from customers through a separate, class specific, RDM bill adjustment effectuated during a subsequent twelve month period.

Q. What information needs to be submitted by the utilities in order to design and implement the mechanism proposed?

A. An up-to-date forecast of delivery revenues, sales and number of customers for each service class or sub-class for each month of calendar year 2009 would be required. Complete rate case quality information adequate to implement an RDM mechanism has not yet been submitted by the companies in this proceeding.

Q. Are you proposing that an RDM address revenues the companies earn on the sale of the fixed price option (FPO) electric commodity service they offer to their residential and small commercial and industrial electric customers at this time?

A. Not at this time. RDM mechanisms are generally applied to delivery service rates excluding commodity sales. However, the Commission Orders issued August 29, 2007 in Case 07-E-0479 and Case 07-E-0996 discuss the possibility that an RDM might encompass FPO commodity sales issues (Case 07-E-0996 was subsequently transferred to this proceeding). Although the FPO is effectively a bundled rate, in contrast to unbundled rates utilities generally offer, the delivery rate component can readily be separated from the FPO bundled rate, yielding a delivery rate similar to the other utility delivery rates. As a result, FPO issues can be treated separately.

Q. What do you propose?

A. NYSEG and RG&E should be required to submit the forecast data referenced earlier and a proposed mechanism for determining revenue discrepancies from forecasted target levels and reconciling those differences with customers. Additionally, NYSEG should address the FPO commodity issues the Commission raised in its Orders. Finally, procedures should be put in place to ensure that the mechanisms are developed and in place by January 1, 2009.

Q. Does this conclude your testimony at this time?

A. Yes.