BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

New York State Electric & Gas

Case 07-M-0906

January 2008

Prepared Testimony of:

ELECTRIC RELIABILITY AND SAFETY PANEL

Patrick Maher
Utility Engineer 2

Diane Barney
Utility Supervisor

Office of Electricity, Gas & Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Q. Please state your name and business address?
A. My name is Patrick J. Maher and my address is 3 Empire State Plaza, Albany, New York, 12223-1350
Q. What is your position and your responsibility?
A. I am a Utility Engineer 2 working in the Office of Electric, Gas and Water. A major portion of my responsibility in my time at the department has involved monitoring utility system performance to ensure adequate levels of service reliability are maintained.
Q. Please state your full name and business address.
A. Diane Barney, Three Empire State Plaza, Albany, New York 12223.
Q. By whom are you employed and in what capacity?
A. I am employed by the New York State Department of Public Service. I am an engineer and supervisor in the Bulk Electric Systems Section of the Office of Electric, Gas & Water.
Q. Would you please state your educational background and professional experience?
A. I received a Bachelor of Science degree in Electrical Engineering from Virginia Polytechnic Institute and State University in 1983. I joined the Department of Public Service in June 1990. My

responsibilities have included analysis of various planning and regulatory issues, including electric transmission planning and siting at both the state and national level, maintaining bulk electric system reliability under changing regulatory designs, national, regional and state reliability standards development, generation interconnection process development, and related legislative efforts. I am the founding Chair of the National Association of Regulatory Utility Commissioners (NARUC) Electric Reliability Staff Subcommittee, an elected regulatory representative on the North American Electric Reliability Corporation (NERC) Standards Committee and regulatory representative on the Northeast Power Coordinating Council (NPCC) Regional Standards Committee.

Q. What is the subject of your testimony?

A. We will be addressing the electric reliability including performance mechanisms for both Energy East companies, New York State Electric & Gas (NYSEG) and Rochester Gas & Electric (RG&E) with respect to Case 07-M-0906, and the New York Independent System Operator's (NYISO) need

evaluation of the Russell Repowering Project proposal.

NYSEG and RG&E System Reliability

Q. Does the petitioners' proposal provide any discernible benefits with respect to electric service reliability or safety?

A. No, the petition provides no direct benefits with respect to electric service reliability or safety that would justify approval of the proposed merger and acquisition (M&A) transaction as in the best interest of customers.

Q. Please describe NYSEG's existing reliability performance mechanism.

A. At this time, NYSEG has targets in place for the System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI). As defined in Case 90-E-1119, SAIFI is the number of times the average customer's service is interrupted in a year and is derived by dividing the total number of customers affected by the total number of customers served. CAIDI is the average number of hours required to restore service to a customer whose service is interrupted and is derived by dividing the total

number of customer hours by the number of customers affected. For SAIFI, a two tiered approach is employed with target levels of 1.20/1.26 and associated revenue adjustments of $875,000/1,750,000, respectively. For CAIDI, target levels of 2.08/2.18 are employed and associated revenue adjustments of $875,000 and 1,750,000, respectively.

Q. Please describe NYSEG's electric service reliability relative to these targets?

A. In examining NYSEG's system wide SAIFI performance over the last ten years, the indices range from a high of 1.14 in 2002 and a low of 0.90 in 1999, with an average of 1.05 for this period. For CAIDI, the levels range from a high of 2.01 in 2006 and a low of 1.76 in 2001, with an average of 1.90 for this period.

Q. Please describe RG&E's existing reliability performance mechanism.

A. At this time RG&E has targets in place for SAIFI and CAIDI of 0.90 and 1.90 respectively with associated revenue adjustments of $1,250,000 for each measure.

Q. Please describe RG&E's electric service reliability relative to these targets?

A. In examining RG&E's system wide SAIFI performance over the last ten years, the indices range from a high of 0.87 in 2001 and a low of 0.59 in 1997, with an average of 0.74 for this period. For CAIDI, the levels range from a high of 1.87 in 2005 and a low of 1.56 in 2001, with an average of 1.69 for this period.

Q. Has the Commission addressed revenue adjustments associated with electric reliability performance mechanisms in previous M&A proceedings?

A. Yes. As part of the Order issued August 23, 2007 in Case 06-M-0878, Joint Petition of National Grid PLC and KeySpan Corporation, the Commission stated "Increased capital spending, enhanced inspection, maintenance and better asset management are all helpful, but given the risks of the transaction, we will require concrete incentives to foster reliability." The Commission then proceeded to double the revenue adjustment over a two year period, this on top of a possible doubling of the adjustment from a previous case. That Order demonstrates that, in an M&A transaction involving

New York electric and gas utilities, maintaining reliability of service subsequent to the transaction is of paramount concern.

Q. How should these issues be addressed in this case?

A. Although the historic performance of both NYSEG and RG&E have been acceptable relative to the established targets, the Commission has established that safeguards are necessary to ensure that reliability of service does not suffer as a result of any change of ownership. Given the actions taken by the Commission in the Order referenced above, we believe that they would arrive at a similar decision in this case and propose an identical doubling of the revenue adjustments, with an additional doubling of the adjustments in the following years. This proposal would increase the total exposure for NYSEG to $1,750,000 and $3,500,000 for SAIFI and CAIDI and RG&E to $2,500,000 for each measure. If, in any subsequent year, the company fails to meet the thresholds, the adjustments will be doubled again. This proposed action would raise the total exposure for NYSEG to $3,500,000 and $7,000,000 for SAIFI and CAIDI and for RG&E to $5,000,000.

The target levels previously established would not be altered as part of this proposal.

Q. Has the Commission set other precedents in proceedings that raise issues related to electric system reliability similar to those raised in this proceeding?

A. Yes. In the Order in Case 06-M-0878, the Commission stated, in reference to capital expenditures, that "there is a risk that resources might be diverted post merger." To ensure continued focus by the company on addressing ageing infrastructure issues and to keep the Commission abreast of developments in this area, the Commission required National Grid to file a report detailing the physical condition of all elements of its electric system and to prepare a plan and schedule identifying needed repairs, remedial actions, and monitoring programs. Given much of the NYSEG and RG&E system is the same vintage as that of National Grid, we believe the Commission would seek similar assurance that the company is today and in the future focused on system upgrades needed to preserve reliability.

Q. What measures are you suggesting to ensure the continued reliability of the NYSEG and RG&E systems?

A. We have two recommendations. First, NYSEG and RG&E should be required to provide annually a five-year forecast of planned system upgrades including the expected costs for each project or program. The annual filing should include a reconciliation of the past year's construction activity with the previously forecasted projects and programs. Second, NYSEG and RG&E should be required to provide an assessment of the physical condition of all elements in their electric systems. Repair plans, remedial actions, and monitoring programs for remedying the problems with facilities found deficient should be developed and included with the assessment. Given the general concerns about the condition of aging infrastructure independent of the petition, the physical assessment and details of mitigation measures should be filed by NYSEG and RG&E with the Commission 90 days from a decision in this proceeding. The annual five-year forecast of construction projects and programs and their

costs, and the reconciliation to the past year's forecast should be filed 30 days from the end of NYSEG's and RG&E's current planning cycle and each year thereafter.

Russell Repowering Project

Q. The New York Independent System Operator (NYISO) Comprehensive Reliability Plan (CRP) 2007 discusses RG&E's proposed Russell Repowering Project. Has the NYISO performed an analysis to determine if there is a reliability need for this project?

A. Yes. The bulk-electric system reliability need for the Russell project was evaluated in the CRP 2007. The Reliability Needs Assessment (RNA), which is the starting point for the CRP, determined that the bulk electric system would be reliable through 2010. The RNA also concluded that there was a need for system upgrades or additional resource capacity starting 2011 with the need increasing through 2016, the final year of the study. The NYISO solicited both merchant project proposals and utility backstop project proposals. (Backstop proposals are project proposals held in reserve in case merchant

projects are insufficient to meet bulk system reliability needs.) RG&E submitted as a backstop project "a specific 300 MW generation proposal in Zone B … included conceptual design information, licensing, and a construction schedule for a 300 MW fluid bed combustor clean coal plant, or, alternatively a 300 MW natural gas combined cycle plant." While not identified by name, this is the description of the repowering alternatives RG&E has put forward for the Russell plant. RG&E stated that the lead time needed for the project was 5 to 7 years. The RG&E submittal is one project within a portfolio of project proposals submitted by the utilities that would fully resolve identified reliability needs through 2016.

Q. What was the result of the NYISO analysis of the RG&E project proposal?

A. The NYISO preformed an analysis of all the utility proposed projects and found that, in aggregate, the projects would meet the identified reliability needs through 2016.

Q. Did the CRP 2007 determine there is a reliability need for the RG&E proposed project?

A. No. The CRP process has a preference for resolving identified bulk system reliability needs with merchant-based projects and only incorporates backstop project proposals if there are insufficient merchant proposals. The CRP 2007 determined "that under the conditions studied, the market-based solutions submitted and the utility updated plans [which apply only to the 2011 need year], the proposed system upgrades will maintain the reliability of the New York bulk power system without the need for regulated backstop or alternative regulated solutions at this time."

Q. Where are Staff's recommendations regarding the Russell station set forth?

A. The Staff Policy Panel makes recommendations regarding the Russell station.

Q. Does this conclude your testimony at this time?

A. Yes.