

January 20, 2006

Honorable Jaclyn A. Brillling
Secretary
New York State Public Service Commission
3 Empire State Plaza
Albany, New York 12233-1350

Re: Proceeding on Motion of the Commission Regarding Expedited Implementation of
Mandatory Hourly Pricing for Commodity Service - PSC Case No. 03-E-0641

Dear Secretary Brillling:

In response to the Public Service Commission's ("PSC" or "the Commission") "Order Instituting Further Proceedings and Requiring the Filing of Draft Tariffs" ("Order") issued on September 23, 2005, please accept these comments on behalf of the New York State Department of Economic Development ("the Department" or "Empire State Development"). In this proceeding the PSC is considering whether to approve or reject, in whole or in part, draft tariffs and education plans for implementation of hourly mandatory pricing for electric commodity service in the service territories of: Central Hudson and Gas Electric Corporation; Consolidated Edison Company of New York, Inc.; New York State Electric and Gas Corporation; Niagara Mohawk Power Corporation; Rochester Gas and Electric Corporation; and Orange and Rockland Utilities, Inc.

Specifically, the PSC will evaluate the effectiveness of the tariffs and education plans in accelerating the implementation of Real Time Pricing ("RTP") for the utilities' largest customer classifications that provide for service at mandatory time-of-use rates.

The Department supports the expedited implementation of mandatory RTP for customers. The benefits of RTP include reducing peak period demand and shifting load to less expensive off-peak periods. Through the use of appropriate metering, the customer is able to respond to price signals by comparing hourly prices against its hourly load profile, thereby providing the ability to effectively manage energy usage. Empire State Development believes that these measures will help business and industrial customers to more effectively manage energy consumption, reduce the rising costs of energy, and stimulate business expansion and job creation in the State.

The Department has reviewed the filings by the utility companies and offers the following comments.

NYISO Day Ahead Locational Based Marginal Pricing and Real Time Pricing

The utilities propose to provide, in accordance with the PSC's directive, eligible customers with mandatory hourly pricing based on the New York Independent System Operator's ("NYISO") zonal Day Ahead Locational Based Marginal Pricing ("DALBMP"). ESD recommends that the PSC authorize the utility companies to offer, in addition to DALBMP, the option to use the NYISO's Real Time Market ("RTM") price product. The customer's access to these pricing options available through the NYISO will further enhance the development of the competitive electric markets.

The Department recommends that pricing be based on the customer's actual hourly energy usage and the NYISO hourly real time price for the zone in which the customer is located. For example, NYSEG proposes to offer, in new Service Classification 4, mandatory hourly service to its customers based on the DALBMP for NYISO Zones C or G. The reliance on only two NYISO zones for hourly pricing does not offer the market pricing efficiencies for customers in the remaining six (6) NYISO zones within the NYSEG service territory.

The migration of the largest customers to mandatory hourly pricing will also eliminate pricing based on the utility's use of a class average load curve. Pricing signals should provide the customer with the ability to respond to hourly prices through scheduling production in lower cost, off-peak periods and reduce load during constrained periods. Billing adjustments made by the NYISO should be flowed through to the customer.

Customer Impacts

ESD recommends that mandatory hourly pricing ultimately be extended to customers with demand loads of 500 kW or greater. The schedules for implementation by the utilities should provide for migration of these customers to mandatory hourly pricing within two (2) years from a Commission Order in this proceeding.

NYSEG and RG&E propose to exempt customers that are receiving economic development incentives from programs such as NYPA's Power for Jobs or the utilities' economic development programs. ESD does not concur with this proposal and recommends that the portion of a customer's load that is not covered by incentives should be eligible to receive hourly day ahead pricing as described above.

Education and Outreach

The Department recommends that the utility companies provide its customers with information on assistance programs for metering installation, including potential funding opportunities available through the New York State Energy and Research Development Authority ("NYSERDA").

The utility companies propose to provide customers with access to monitoring programs that provide information on energy consumption and market prices. These programs are designed to assist the customer in implementing efficient energy management practices by responding to market price signals. ESD recommends that these utility programs and the required training for customers be implemented immediately to ensure maximum participation in, and effective use

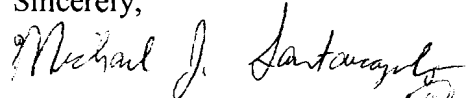
of, DALBMP or RT pricing. Over the long term, the Department recommends that a uniform software system for monitoring energy usage and pricing be developed for use in all utility jurisdictions throughout the State. ESD believes a standard software system will streamline administration of the deregulated electric market, assist customers in making efficient energy choices, and help in the recruitment of business and industry in New York. These benefits, over the long term, will far outweigh the costs of adoption of a standard system.

Implementation Schedule

ESD recommends implementation of the mandatory hourly pricing program for all the utilities by May, 2006. This schedule will enable customers to enroll and use the program going into the peak load summer season.

Thank you for the opportunity to comment. If you have any questions, please do not hesitate to contact me at (518) 292-5275.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Santarcangelo". To the right of the signature is a small circular stamp containing the initials "MK".

Michael J. Santarcangelo
Director of Energy Policy