Select Energy New York, Inc., 507 Plum Street, Syracuse, NY 13204

January 23, 2006

Hon. Jaclyn A. Brilling, Secretary
New York State Public Service Commission
3 Empire State Plaza
Albany, New York 12223

Re: Case 03-E-0641 - Case 03-E-0641 – Proceeding on Motion of the Commission Regarding Expedited Implementation of Mandatory Hourly Pricing for Commodity Service

Dear Secretary Brilling:

Please note the following comments from Select Energy New York, Inc. (Select) regarding the Mandatory Hourly Pricing Program and the utility's draft tariffs from November, 2005.

Background

On September 23, 2005, the Commission issued its "*Order Instituting Further Proceedings and Requiring the Filing of Draft Tariffs*" (Order) from the Proceeding which directed utilities to file draft tariffs and outreach and education plans to accelerate and make mandatory previous Voluntary Real Time Pricing Programs. The Commission's goal was to afford customers in New York State the opportunity to reduce their electricity bills by adjusting their usage patterns in response to clear and transparent price signals.

General Comments

Select supports the Commission's efforts to investigate ways to reduce electricity expenditures for New York State consumers. However, it is unclear if the current design of the Mandatory Hourly Pricing Program (MHP) will actually meet the stated goal of ameliorating customer's energy costs. Therefore, there are a number of issues that should be further explored as the MHP is considered by the Commission, the utilities and other interested parties:

1. **How many MHP customers will truly have the ability and/or desire to change usage patterns in reaction to price movements in the New York ISO Day-Ahead Market (DAM)?** Many large customers' usage patterns are an absolute function of business processes (class schedules for schools, business hours for office buildings, customer deadlines for manufacturing facilities, etc.) and are therefore not, to any real degree, subject to change on short notice in reaction to market price changes of unknown duration.

2. **Related to the above point, what are the real costs and benefits of the MHP program?** Given the uncertain amount of load that will be curtailed, a study should be undertaken to quantify the economic benefit expected versus the anticipated costs of the program. How many customers will be in program? How many will actually curtail? How much load will actually be curtailed? How will this impact Economic Development Programs (Power For Jobs, etc.)? What are the implementation and ongoing costs? Who is paying for the program and who is deriving benefits from the program? Unless the benefits can be shown to outweigh the costs, alternative programs should be considered.

3. **What level of involvement has the ISO had in this process?** What is the ISO's position on schedulers not knowing if the load they schedule for the DAM will truly be at expected levels? What impact will the MHP Program have on the ISO's Real-Time Market as more load is bought or sold in that market?

4. **How will customers see true market price volatility?** To the extent MHP customers do curtail, how will customers be exposed to prices in the ISO's Real-Time Market? There is a much higher degree of price volatility is in the ISO's RT market as compared to the DAM. As load that is scheduled in the DAM is curtailed, there will be liquidation costs (positive or negative). This is a true financial issue to any load serving entity and, as such, it is an important point of consideration that MHP customers should see these market signals, as they would if they were an ESCO customer. Giving the utilities the ability to spread out these costs would be an unfair advantage over ESCOs who do not have the luxury of a large, captive customer base.

To the extent the MHP Program moves forward, Select would like to raise a few issues for consideration as draft tariffs are reviewed and any collaborative meetings/technical workshops are convened:

1. Utilities should collect any program implementation and outreach and education costs associated with MHP Programs through their electric commodity rate component. As these costs are related to commodity rate component activities, it is rational to collect such costs through the same component that is the subject of the efforts. Flowing costs through the commodity component will also keep the utilities on equal footing with ESCOs who have no choice but to collect costs related to similar efforts they may undertake in their commodity price or in some manner on their commodity bill.

2. Care should be taken in this process to ensure that the Commission goal of allowing large consumers to respond to true price signals is actually reached. One impediment to this goal will be to allow utilities to design rate structures that mask the transparency of Day Ahead Market prices, thereby defeating the purpose of the whole proceeding. Design structures that could hinder Commission goals include (1) flowing hedges through the commodity component, thereby increasing or decreasing commodity prices and concealing true DAM price levels, (2) using some forecasting/true up mechanism that will only expose the customer to some part of true DAM prices in a particular month and (3) not having full, transparent capacity and ancillary costs in the commodity component, thereby making customer consideration of full energy and non-energy prices difficult.

3. Adequate attention must be given to interval meter data formats and information exchange mechanisms. As ESCOs will be interacting with this new customer class that will be balanced to their actual usage as opposed to a load profile, it is vitally important that ESCOs receive the necessary interval consumption data from a convenient distribution method in a timely manner and in an electronic format that will be easy to use.

4. Any utility energy cost analysis tools given to customers "free" should be accessible for all customers, be they utility commodity customers or ESCO commodity customers. Giving access to these tools only to utility commodity customers will unfairly entrench the customer with the utility, as an ESCO must somehow recoup the costs of similar type offerings from a customer base that is not captive.

Utility Specific Comments

National Grid
In its November 22, 2005 MHP proposal, National Grid stated it would extend its Real Time Pricing billing/settlement method currently used by its SC3A rate class down to all SC3 customers with billing demands at least 500 kW. Grid will also install wireless meters on the premises of these customers. The up front and ongoing costs associated with these efforts are proposed to be collected through some combination of System Benefit Charge funds and the Customer Charge in Grid's rate design.

Select would like to see costs associated with the program implementation flow through the utility commodity component for the reasons stated above.

RG&E
In its November 21, 2005 MHP proposal, RG&E proposed to implement a new rate class (SC 15) for its MHP customers. These customers will have two electric supply options – the ESCO Pricing Option (EPO) or the Hourly Pricing Option (HPO). RG&E proposes to an effective date of January 1, 2009 for the HPO.

Select notes that a January 1, 2009 start date does not seem to address the Commission's desire for an expedited Mandatory Hourly Pricing process. Also, RGE's program design with its floating Transition Charge linked to commodity price levels hinders the customer's ability to insolate, understand and react to DAM prices.

NYSEG
As NYSEG's plan is substantially similar to RGE's, Select's comments for the RGE proposal are also applicable for the NYSEG plan.

O&R
In its November 21, 2005 MHP proposal, O&R stated it would implement a General Information Section 14 to its electric tariff describing the determination of hourly prices for those MHP customer classes (SC 9, 22 and 25).

Select supports O&R's plan to continue its current procedure of recovering incremental costs of its MHP outreach and education program through its Market Supply Charge. Select would like O&R not be allowed to include the costs/benefits associated with hedging instruments in its Mandatory Day-Ahead Hourly Pricing structure. As stated above, the flowing through of hedges in the utility commodity component takes away from the customer seeing true price signals.

CHG&E

In its November 22, 2005 MHP proposal, CHG&E describes the steps that led to its implementation of its April 1, 2005 requirement that SC3 and 13 customers who purchase electricity suppliers from the Company do so under its Hourly Pricing Proposal. Select would like CHG&E not be allowed to include the costs/benefits associated with hedging instruments in its Mandatory Day-Ahead Hourly Pricing structure for the reasons stated above.

ConEd

In its November 21, 2005 MHP proposal, ConEd describes its plan to take the structure of its currently voluntary hourly pricing program and make the program mandatory. Select would like ConEd to recover the costs associated with the program through its Market Supply Charge as opposed to the Monthly Adjustment Clause for the reasons stated above.

Respectfully submitted,

Jon Collins
Select Energy New York, Inc.

Cc: Active service list via email