BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

---x

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service	Case 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service	Case 15-G- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service	Case 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service	Case 15-G- ____

---x

DIRECT TESTIMONY OF
POLICY PANEL

Steven R. Adams
Joseph J. Syta

May 20, 2015

DIRECT TESTIMONY OF POLICY PANEL

TABLE OF CONTENTS

DIRECT TESTIMONY OF POLICY PANEL

Q. Please state the names of the members on this Policy Panel ("Panel").

A. We are Steven R. Adams and Joseph J. Syta.

Q. Mr. Adams, please state your title and business address.

A. I am the Vice President, Regulatory Strategy. My business address is 52 Farm View Drive, New Gloucester, Maine 04260.

Q. Please summarize your educational background and work experience.

A. My Curriculum Vitae ("CV") is attached as Exhibit __ (PP-1).

Q. Have you previously testified in other proceedings before the New York State Public Service Commission ("PSC" or the "Commission") or any other state or federal regulatory agency or court?

A. Yes. I have testified in Connecticut, Maine, New York and Virginia. I previously testified before this Commission in New York State Electric & Gas Corporation's ("NYSEG") and Rochester Gas and Electric Corporation's ("RG&E" and together with NYSEG, the "Companies") last electric and gas rate cases, Cases 09-E-0715 et al. and in Case 07-M-0906 regarding the indirect acquisition of NYSEG and RG&E by Iberdrola, S.A. I also testified in NYSEG and RG&E rate proceedings prior to 2009.

Q. Mr. Syta, please state your title and business address.

A. I am the Vice President, Controller and Treasurer. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (PP-1).

DIRECT TESTIMONY OF POLICY PANEL

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. Yes, I have testified before the Commission in numerous cases dating back to 1989. Most recently, I testified in support of the Companies' last rate cases in Cases 09-E-0715 et al. and in Case 07-M-0906 regarding the indirect acquisition of NYSEG and RG&E by Iberdrola, S.A.

Q. Is this Panel sponsoring any exhibits?

A. Yes. This Panel is sponsoring the following exhibits:

1) Exhibit __ (PP-1) sets forth the CVs of the witnesses testifying on this Panel;
2) Exhibit __ (PP-2) is an index and identification of the subject areas and testimony supporting the Companies' rate filings;[1]
3) Exhibit __ (PP-3) compares the Companies' delivery rates to other New York utilities; and
4) Exhibit __ (PP-4) identifies the major rate case drivers.

Q. Can you introduce the Companies' other rate case panels/witnesses, including a brief review of the subject matter covered by each?

A. Yes. The Companies are presenting a total of 22 pieces of testimony (including this one) in support of their direct case. Please see Exhibit __ (PP-2) for a brief review of the subject matters covered in each piece of testimony.

---

[1] Most of the testimony covers both NYSEG and RG&E. However, stand-alone testimony (i.e., one piece of testimony for NYSEG and another, separate piece of testimony for RG&E) is provided by the following panels/witnesses: Gas Engineering, Deliveries and Operations Panel; Amparo Nieto (Marginal Cost of Service); John J. Spanos (Depreciation); and the Deliveries and Revenue/Revenue Decoupling Mechanism Panel.

DIRECT TESTIMONY OF POLICY PANEL

I. INTRODUCTION AND OVERVIEW

Q. What filings are the Companies making in these proceedings?

A. The Companies are filing rate cases for four businesses: NYSEG Electric; NYSEG Gas; RG&E Electric; and RG&E Gas. The Companies are requesting rate increases at NYSEG Electric, NYSEG Gas, and RG&E Gas. For RG&E Electric, the Company is proposing a rate decrease.

Q. Why are the Companies filing for rate changes at this time?

A. The Companies last filed for new electric and gas delivery rates in September 2009, which resulted in a Commission approved settlement for a multi-year rate plan ("2010 Rate Plan"). The 2010 Rate Plan provided for rate changes at each of the four businesses with the last rate change in September 2012. As a result, assuming new rates associated with these rate filings become effective in May 2016, it will have been three years and eight months since the Companies' last rate change. The 2010 Rate Plan and subsequent stay-out period allowed the Companies to keep their rates among the lowest in New York while continuing to provide safe, reliable and adequate service.

Q. How do the rates of the Companies compare with other New York utilities?

A. NYSEG Electric's delivery rates are the lowest in New York, while RG&E Electric's delivery rates are among the lowest. Similarly, both NYSEG's and RG&E's gas distribution rates are among the lowest in the state. This is illustrated in Exhibit __ (PP-3) which shows that NYSEG and RG&E have been successful in managing rate levels for customers.

DIRECT TESTIMONY OF POLICY PANEL

Q. Did the Companies incur any major difference in costs from the amounts included in rates which have been deferred for future collection or return to customers?

A. Yes, NYSEG Electric incurred significant storm restoration costs which have been deferred for collection. RG&E Electric incurred lower costs than included in rates and has built up deferred amounts to be returned to customers.

Q. Are these deferred costs the primary reason for the rate filings?

A. Yes, for the most part. For NYSEG Electric, the rate filing is primarily about the need to recover deferred storm costs. In fact, 50% of the proposed rate increase at NYSEG Electric is to recover deferred storm costs. However, these rate filings are also about maintaining NYSEG's financial integrity and providing NYSEG the resources needed to perform reliability enhancing activities, such as implementing full-cycle distribution vegetation management (to reduce outages and speed storm recovery) as well as undertaking capital investments for modernization and automation of the network. At RG&E Electric, the rate case filing is about an opportunity to utilize regulatory liabilities to offer a rate decrease to customers, while still making necessary investments in capital projects and the network. For the gas businesses, approval of these rate filings will allow the Companies to continue to enhance safety such as accelerating replacement of leak prone mains and adding to the first responder training programs, while allowing for gas expansion and maintenance of the gas network.

DIRECT TESTIMONY OF POLICY PANEL

Q. Are these rate filings driven by the Commission's Reforming the Energy Vision ("REV") proceeding (Case 14-M-0101)?

A. No. These rate filings are driven by the need to recover investments in storm repair and network reliability (e.g., vegetation management and leak prone pipe replacement), return monies to customers in a reasonable manner, and maintain sufficient rate support and financial resources for the Companies to continue to provide high-quality service and maintain strong bond ratings. The Companies are participating actively in REV and the Commission's REV-related proceedings and will continue to address the many transformative REV opportunities in those proceedings. The Companies are proposing in these rate filings an innovative REV supportive project. As part of a unique partnership in the Ithaca region among the Companies, the City of Ithaca, the Town of Ithaca, Tompkins County, and Cornell University, the Companies propose development of the Energy Smart Community Project ("ESC Project"). The ESC Project would serve as a vital platform and test-bed for the Companies and our partners to evaluate central REV concepts such as Distributed System Platform Provider operations, Distributed Energy Resource planning, marketing, third-party engagement and consumer participation.

Q. Is maintaining the Companies' financial integrity critical for customers?

A. Yes. Sufficient cash flow and financially healthy credit ratings in the A- or BBB+ range benefit customers.

DIRECT TESTIMONY OF POLICY PANEL

Q. What are the current credit ratings for NYSEG and RG&E?

A. The credit ratings and outlooks for NYSEG and RG&E from the three major credit agencies are as follows:

Company	Standard & Poor's	Moody's	Fitch Ratings
NYSEG	BBB+ (Positive)	A3 (Stable)	A- (Stable)
RG&E	BBB+ (Positive)	Baa1 (Stable)	BBB+ (Positive)

Q. Are the Companies committed to achieving an "A" level credit rating?

A. Yes. Credit ratings at an "A" level benefit the Companies and their customers in both the short- and long-term. "A" level credit ratings would help ensure adequate access to capital on preferable terms and conditions, as well as a lower overall cost of capital. Such ratings would also enable access to credit if difficult market conditions were to reappear, such as in 2008 / 2009 when lower rated utilities were unable to access capital for a period of time.

Q. What are some of the other reasons to maintain the financial integrity of the Companies?

A. The Companies will need to have strong financial integrity to adapt to the changing utility landscape and to facilitate the rapid changes in technology, roles and personnel required to implement the Commission's and the state's REV vision.

Q. How will providing the rate changes sought in these proceedings help the Companies move toward an "A" level credit rating?

A. Sustained regulatory support from the Commission in the form of timely cost recovery, appropriate amortization of regulatory assets and liabilities, and fair and adequate returns will allow the Companies to improve or maintain their credit metrics and/or avoid downgrades. The rating agency metrics are primarily based upon the Companies' cash flows and the credit rating agencies' views of regulatory risk. Granting the Companies' requested rate changes will reduce regulatory risk while supporting the Companies' cash flows, credit metrics and financial integrity.

Q. What specific revenue increases/decrease are proposed in the Companies' tariffs?

A. NYSEG Electric's proposed annual revenue would increase $126.3 million / 7% overall and RG&E Electric's proposed annual revenue would decrease $10.2 million / (1%) overall.[2] For the gas businesses, NYSEG Gas' proposed annual revenue would increase $37.8 million / 8% overall, and RG&E Gas' proposed revenue would increase $20.3 million / 5% overall. To the extent that a multi-year settlement plan could be successfully negotiated, further moderation of the rate increases would be possible.

Q. How would the average residential customer's overall energy bills be impacted by the Companies' rate proposals?

A. A NYSEG average residential customer's monthly total electric bill would increase approximately $8 per month[3] and an RG&E average residential customer's total electric bill would decrease approximately $1.34 per month. For

---

2 The term "overall" reflects total revenues (delivery and supply).

3 Based on average residential customer use of 600kWh.

the gas businesses, a NYSEG residential customer's total bill would increase approximately $13 per month in the winter and $8 per month in the summer.[4] A RG&E Gas residential customer's total bill would increase approximately $6 per month in the winter and $4 per month in the summer. The bill impacts are described in the Direct Testimony of the Revenue Allocation, Rate Design, Economic Development, and Tariff Panel.

Q. What Return on Equity ("ROE") and equity ratio are the Companies seeking?

A. The Companies are proposing an ROE of 10.06% and a 50% equity ratio, as supported by the testimony of Ann E. Bulkley of Concentric Energy Advisors, Inc.

II. <u>MAJOR RATE CASE DRIVERS</u>

Q. What is the Test Year and Rate Year for the Companies' rate filings?

A. The Test Year is calendar year 2014 and the Rate Year is forecast for the period April 1, 2016 to March 31, 2017 ("Rate Year"). As a result of the Companies submitting this filing on May 20, 2015, the effective date of new rates, assuming the full approximately 11-month suspension period, will be April 20, 2016.

Q. Have you identified key drivers for the rate increases and decrease that the Companies are proposing?

A. Yes. Exhibit __ (PP-4) identifies key rate case drivers for all four businesses. We discuss the major drivers for each business below.

---

[4] Based upon an average residential space heating customer using 200 therms in a winter month and 30 therms in a summer month.

A. <u>NYSEG Electric – Rate Case Drivers</u>

Q. What are some of the key drivers underlying the requested rate increase at NYSEG Electric?

A. At NYSEG Electric, the single largest rate driver is recovery of deferred major storm costs. As shown on Exhibit __ (PP-4), this single item represents 50% of the requested increase in revenues. NYSEG incurred these costs to prepare for and respond to major storms and to repair damage to its networks.

Q. What major storms contributed to the deferral balance at NYSEG?

A. Many major storms hit NYSEG's service area during the last five years including three significant storm events. In 2011, Hurricane Irene and Tropical Storm Lee cost $39 million and $9 million, respectively. In 2012, Superstorm Sandy cost approximately $66 million. NYSEG employs reserve accounting for major storms, meaning that all revenues collected are credited to a balance sheet reserve account and all major storm restoration costs are charged to the reserve account. NYSEG Electric had $240.9 million of uncollected, deferred major storm costs as of December 31, 2014 and is projecting a storm deferral balance at the beginning of the Rate Year of approximately $262 million.

Q. How does NYSEG propose to address the storm deferral balance?

A. NYSEG is proposing to amortize the balance over five years at approximately $52 million per year and include the reserve balance in rate base.

Q. Is NYSEG requesting an increase in its annual major storm cost allowance?

A. No. NYSEG Electric currently collects $12 million annually for major storm restoration costs. To avoid creating further upward pressure on NYSEG Electric rates, NYSEG is proposing to keep the current major storm allowance of $12 million and implement a Rate Adjustment Mechanism to collect or return deferred storm costs that exceed a targeted level of +/- $20 million. This mechanism will help avoid the build-up of future large major storm deferral balances while not causing rates to change unless the threshold is met.

Q. What is another major driver of the NYSEG Electric rate increase?

A. Another major driver is NYSEG's request to implement a full-cycle distribution vegetation management program. NYSEG is the only major electric company in New York that is not on a full-cycle distribution vegetation management program. Such a program was recommended for NYSEG in the Companies' last management audit. The Companies' Vegetation Management Panel addresses the numerous benefits and the cost of implementing such a program.

Q. How much does NYSEG collect annually for distribution vegetation management activities?

A. NYSEG currently collects $20 million annually for distribution vegetation management. NYSEG proposes to phase-in a program to address vegetation encroachment on its overhead distribution lines. The cost of the program is estimated to be approximately $40 million in the Rate Year, increasing up to $75 million by Rate Year 3. As the Vegetation Management Panel testifies, once the four-year reclamation period is concluded, annual costs are expected to decrease as NYSEG moves into a normal full-cycle vegetation management program.

Q. Will a full-cycle vegetation management plan help improve system reliability and resiliency?

A. Yes, it will. Fallen trees, branches, and overgrown vegetation are some of the most common causes of power outages for NYSEG. Implementation of a full-cycle vegetation management plan is expected to reduce the number of tree-related outages experienced by NYSEG's customers and provide for faster storm restoration.

Q. Is network investment and return one of the rate case drivers at NYSEG Electric?

A. Yes. The second largest rate driver at NYSEG is network investment and return. NYSEG Electric net plant has increased approximately $346 million since Rate Year 3 of its 2010 Rate Plan. Net plant in the 2010 Rate Plan for Rate Year 3 (i.e., the 12 months ended August 31, 2013) was $1.684 billion.[5] Net plant for the Rate Year is projected to be $2.030 billion.

Q. What are some of the other cost drivers for NYSEG?

A. Other costs drivers include property tax and pension costs. Despite NYSEG's success in managing its property taxes, they are expected to increase by approximately $18 million during the Rate Year. Pension costs are projected to increase approximately $11 million during the Rate Year. NYSEG is providing separate testimony on both property taxes and pensions. Property taxes are discussed by the Revenue Requirement Panel and pension costs are discussed by the Workforce, Compensation and Benefits Panel.

[5] 2010 Rate Plan at Appendix C, Schedule G.

Q. Has NYSEG sought to actively manage its property taxes?

A. Yes. As noted by the Revenue Requirement Panel, NYSEG has pursued economic and functional obsolescence reductions in its property taxes on a regular basis. NYSEG estimates that these efforts have reduced property tax costs from 2010 to 2014 by approximately $12 million for NYSEG Electric and $3 million for NYSEG Gas.

Q. What measures have NYSEG and RG&E taken to manage their pension costs?

A. The Companies have taken a number of measures to control pension costs. As indicated by the Workforce, Compensation and Benefits Panel, the Companies first moved away from a final pay benefit (defined benefit annuity) to a cash balance plan in the early 2000s. The Companies have since eliminated all defined benefit plans and have gone to a straight defined contribution plan for all new employees.

Q. Is the Panel proposing any change in the Companies' current reconciliation mechanisms for property taxes and pension costs?

A. No, the Companies propose to retain the property tax and pension costs reconciliations.

B. <u>RG&E Electric – Rate Case Drivers</u>

Q. What are some of the key drivers of the revenue requirement decrease at RG&E Electric?

A. In contrast to the build-up of regulatory assets at NYSEG Electric, RG&E Electric has built up deferred regulatory liabilities, which allows RG&E to propose an electric rate decrease.

Q. What are the major deferred regulatory liabilities at RG&E Electric?

A. The major regulatory liabilities at RG&E Electric are deferred property taxes, bonus depreciation non-cash return, and the positive benefit adjustment balance remaining from the 2008 Iberdrola-Energy East merger. RG&E is estimating net regulatory liabilities of approximately $105 million at the beginning of the Rate Year.

Q. Please comment on the impact of RG&E's efforts to manage its property taxes, which has contributed to the availability of the deferred regulatory liabilities.

A. RG&E's success in managing its property taxes from 2010 to 2014, via its pursuit of economic and functional obsolescence reductions on a regular basis, contributed approximately $55 million to regulatory liabilities (amounts owed to customers).

Q. Is RG&E proposing to amortize these regulatory liabilities?

A. Yes. RG&E is forecasting a net annual regulatory liability amortization of approximately $43 million (credit to customers) during the Rate Year. In general, amortization of regulatory liabilities and assets would occur over five years, with the exception of two deferred tax regulatory assets, which would be amortized over their remaining book lives of approximately 39 years, as discussed by the Revenue Requirements Panel.

Q. Why not refund to customers the regulatory liabilities more quickly?

A. A gradual five-year amortization helps moderate impacts to customers arising from the reliability agreement ("RSSA") with R.E. Ginna Nuclear Power Plant, LLC ("Ginna") and the Ginna Retirement Transmission Alternative ("GRTA") investment. The RSSA is necessary to maintain reliability for customers given Ginna's potential retirement. RG&E has proposed, in another proceeding, a surcharge to recover the costs of the RSSA. While paying Ginna for reliability services, RG&E will also be incurring the cost to construct the GRTA. To avoid potentially negative impacts on RG&E's cash flow and credit ratings, RG&E recommends that the existing regulatory liabilities be returned to customers over a five-year period. The Revenue Allocation, Rate Design, Economic Development, and Tariff Panel provides customer bill impacts associated with RG&E's electric delivery rates with and without Ginna RSSA impacts.

Q. Is continued investment in the network one of the rate case drivers at RG&E Electric?

A. Yes. Another large driver at RG&E is its continued network investment. RG&E Electric net plant has increased approximately $308 million since Rate Year 3 of the 2010 Rate Plan. Net plant in the 2010 Rate Plan for Rate Year 3 (i.e., 12 months ended August 31, 2013) was approximately $1.262 billion.[6] Net plant for the Rate Year is projected to be $1.570 billion. This increase in net investment is the second largest rate case driver for RG&E Electric.

---

[6] 2010 Rate Plan at Appendix E, Schedule G.

Q. Are there other RG&E Electric rate case drivers?

A. Yes, similar to NYSEG, RG&E is forecasting an increase in pension costs which are offset by moving the pre-2015 bonus tax depreciation deferred carrying costs into rate base as shown on Exhibit __ (PP-4).

C. Staffing is Not a Major Rate Case Driver

Q. Before turning to NYSEG Gas and RG&E Gas cost drivers, are increases in staffing costs a major rate case driver for NYSEG or RG&E in these proceedings?

A. No, staffing is not a major rate case driver. A 2% reduction in employees is forecast for NYSEG, while RG&E is forecasting an approximately 3% staffing increase, mostly in its gas operations business. Overall, the net staffing for NYSEG and RG&E is a slight decrease of 0.2%. It is important to note that the Commission is currently conducting a staffing audit of all major New York utilities, with an expected report and decision to be issued later in 2015. To the extent the Commission requires the Companies to adjust staffing levels, a regulatory mechanism (e.g., an adjustment to rates or a deferral with carrying costs) will be needed to reflect any incremental requirements arising from the staffing audit.

D. NYSEG Gas and RG&E Gas – Rate Case Drivers

Q. What are the key drivers of the rate increases for NYSEG Gas and RG&E Gas?

A. For both businesses, investment and return are the primary drivers. NYSEG Gas has increased its net plant by $73 million since its last rate change.[7] RG&E Gas has increased its net plant by $68 million since its last rate change.[8]

E. Leak Prone Pipe Replacement / Gas Safety

Q. Are the Companies proposing leak prone pipe main replacement program enhancements?

A. Yes. The Companies propose an acceleration of leak prone gas main removal as set forth in the testimony of the Gas Engineering, Delivery and Operations Panels. The Companies propose to increase the leak prone main replacement target from 24 miles in 2016 to 26 miles in 2017, and to 28 miles each year thereafter. The combined annual cost is estimated to be approximately $27 million in 2017. Based on the increased miles, the Companies estimate that it will take approximately 11 years, instead of 13 years, beginning in 2016 to replace all of their leak prone gas mains.

Q. Are the Companies proposing enhanced gas safety customer outreach and education programs?

A. Yes. As the Gas Engineering, Delivery and Operations Panels discuss, the Companies plan to implement a natural gas safety outreach and education

---

7 NYSEG Gas net plant during the Rate Year is forecast to be $640 million while its net plant for Rate Year 3 of the 2010 Rate Plan was $567 million (2010 Rate Plan at Appendix D, Schedule G, lines 1 and 2).

8 RG&E Gas net plant during the Rate Year is forecast to be $518 million while its net plant for Rate Year 3 of the 2010 Rate Plan was $450 million (2010 Rate Plan at Appendix F, Schedule G, lines 1 and 2).

program consisting of the following components: 1) a program designed to help customers recognize and respond to gas odors; and 2) a program to increase municipality and third-party damage awareness.

Q. Do NYSEG Gas and RG&E Gas propose additional First Responder Training?

A. Yes. The Companies have included funds in the Incremental Maintenance Plan to implement a First Responder Training Program for local fire departments on the dangers of natural gas. NYSEG has also modified the Binghamton Service Center into an Incident Command Center that can be used to coordinate with First Responders and others during flood events and emergencies and to facilitate joint emergency training exercises with local and state agencies.

III. OTHER KEY ASPECTS OF THE COMPANIES' CASES

A. The REV Proceeding

Q. What is the impact of the REV proceeding on the Companies' rate filings and these proceedings?

A. These rate filings are neither driven by nor are directly the result of REV. They are, however, occurring during the middle of New York's REV evolution. The Commission issued its Order Adopting Regulatory Policy Framework and Implementation Plan in REV on February 26, 2015. The Track 2 Straw Proposal is expected to be issued for comment in mid-2015, with a Track 2 Order issued thereafter by the Commission.

Q. Are the Companies now able to anticipate or quantify all REV impacts?

A. No. While REV is a large undertaking that has the potential to deliver benefits to many of New York's electricity customers, REV is transformative in nature and is rapidly evolving. The Companies' Reforming the Energy Vision Panel and the Companies' other witnesses/panels are providing testimony based on the best available REV information. The Companies' testimony will be updated, as necessary, to address determinations in the REV and REV-related proceedings.

Q. Are the Companies actively participating in REV and REV-related proceedings?

A. Yes. The Companies continue to participate actively in the REV and REV- related proceedings. The Companies filed non-wires alternatives on May 1, 2015 and will file demonstration projects by July 1, 2015.

Q. What is the Companies' overall approach for implementing REV?

A. As the Companies' Reforming the Energy Vision Panel explains, the Companies continue to make capital investments that will help support REV implementation and that are consistent with the Companies' Distributed System Platform Provider responsibilities. The Companies also seek to make it easier to connect and integrate Distributed Generation and other Distributed Energy Resources from both an operational and a distribution planning perspective. The next step will be to execute a series of targeted initiatives to test and refine potential models and approaches that could be effectively employed on a larger scale.

DIRECT TESTIMONY OF POLICY PANEL

Q. Please explain further some of the Companies' initiatives.

A. RG&E is working with the Rochester Institute of Technology on microgrid issues and NYSEG is working with Binghamton University on large scale solar issues and leveraging data to improve system planning and operations to inform Distributed Energy Resource performance modeling. The Companies are also proposing the ESC Project.

Q. What is the ESC Project?

A. The ESC Project is a partnership among the Companies and the City of Ithaca, the Town of Ithaca, Tompkins County and Cornell University to create a platform that will allow the Companies to test a variety of new REV concepts for engaging customers, the community and markets on a smaller controlled scale in a single community. The ESC Project will address the three main functions of the Companies' role as the Distributed System Platform Provider: 1) implementation of new processes and tools for integrated distribution system planning; 2) support for customer and third-party engagement in market operations; and 3) efficient and reliable operation of the new grid. A detailed report describing the ESC Project is presented by the Companies' Reforming the Energy Vision Panel in Exhibit __ (REV-2). While the ESC Project is not a demonstration project, it establishes an innovative platform that can be employed to test various REV concepts.

B. <u>Customer Service, Low Income and Economic Development Programs</u>

Q. Have the Companies met their customer service quality measures?

A. Yes, Exhibit __ (CSEERA-2) to the Customer Services, Energy Efficiency, and Retail Access Panel sets forth the Companies performance on the Companies' four regulatory Customer Service Performance Mechanisms (PSC Complaint Rate, Calls Answered within 30 seconds, Customer Interaction Service Index (Contact Satisfaction Survey), and Percent of Estimated Meter Reads), and associated targets and revenue adjustments.

Q. Are the Companies seeking any changes to the customer service metrics?

A. The Companies seek to eliminate the Percent of Estimates measure, as historic performance has demonstrated that it is not an ongoing area of concern. The Companies are also proposing new targets for Contact Satisfaction at both NYSEG and RG&E and a symmetrical revenue adjustment design with incentives that we will discuss later in our testimony.

Q. Are the Companies proposing any modifications to their customer service programs?

A. Yes. The Companies propose a new program related to credit and debit card payments. As discussed by the Customer Services, Energy Efficiency and Retail Access Panel, any fees associated with credit card payment would be considered a general cost of doing business, similar to fees paid for other payment methods (such as auto pay and one-time direct debit) and be included in the Companies' revenue requirements. This program will enhance the quality of service provided to our customers and, in turn, increase customer satisfaction.

Q. What changes are the Companies proposing to the Low Income Program?

A. The Companies propose adding a budget balance forgiveness component to their existing arrears forgiveness program. The goal of the budget balance forgiveness component is to help stabilize customers' monthly bills thereby reducing the number of customers who drop out of the arrears forgiveness program.

Q. Are the Companies proposing to continue their economic development programs?

A. Yes. The Companies have a history of supporting economic development, both through non-rate and rate assistance programs. In these proceedings, the Companies seek to modify and enhance several of their existing non-rate programs to broaden eligibility requirements and to provide additional assistance. The Companies propose adding several additional program opportunities to address specific needs. The Companies plan to utilize the electric reserve funds proactively to support their non-rate economic development programs, as well as the ESC Project.

The Companies will also continue to offer discounted rates for qualifying customers located in an Economic Development Zone ("Empire Zone") that obtain Empire Zone certification and for qualifying customers that participate in the Excelsior Jobs program. Load qualifying for these programs is billed at discounted delivery rates for service classes in which the marginal cost rates are lower than the standard base delivery rates. The Companies are proposing new delivery rates for the programs based on the results of their marginal cost of service studies, as set forth in more detail by the Revenue Allocation, Rate Design, Economic Development, and Tariff Panel.

C. <u>Electric Capital Investment – Major Electric Projects</u>

Q. Are the Companies proposing any major electric projects?

A. Yes. The Electric and Hydro Capital Expenditures Panel supports numerous major electric projects. Exhibit __ (CEE-5.1) contains descriptions and forecasts the costs of NYSEG's major projects. Exhibit __ (CEE-5.2) contains similar information for RG&E. Major projects at NYSEG include the Auburn Transmission Project, the Columbia County Transmission Project and the Marcy South Series Compensation Project. Examples of projects at RG&E include the GRTA and Station 80 Projects, the Rochester Area Reliability Project, Station 23 New 115kV Source and Sectionalizing Line 917. For 2016, NYSEG Electric plans to spend approximately $241 million in capital and RG&E Electric plans to spend approximately $223 million. The total electric and hydro capital investment of $464 million reflects the Companies' commitment to necessary investments.

D. <u>Gas Investment – Major Gas Projects and Expansion</u>

Q. Are the Companies proposing any major gas projects?

A. Yes. NYSEG's and RG&E's Gas Engineering, Delivery and Operations Panels support several major gas projects. Exhibit __ (NYSEGGASEDO-4) and

Exhibit __ (RGEGASEDO-4) provide a cost breakdown of the asset categories used for gas program planning and capital spending, including Transmission Mains, Distribution Mains, Services, Leak Prone Main, Leak Prone Services, Service Meters and Service Regulators, Metering & Regulating/Gate and Distribution Regulator Stations, Highway Relocations, and General Plant/Miscellaneous. NYSEG's proposed investment is approximately $62 million in 2016, including common capital. RG&E's proposed investment is approximately $42 million.

Q. What gas expansion programs are the Companies proposing?

A. NYSEG will be implementing a Neighborhood Expansion Pilot Program and a Community Expansion Pilot Program in 2015 and RG&E is considering implementing similar Neighborhood and Community Expansion Pilots. The Companies also propose a Community Development Fund Pilot Program. The Neighborhood and Community Expansion Pilot Programs involve new processes that are designed to make it easier for customers to understand expansion possibilities and significantly speed up the time involved in developing a project while providing greater price certainty to customers.

E. <u>Electric and Gas Service Quality/Safety Performance Metrics</u>

Q. Please describe the Companies' proposal with respect to electric reliability performance metrics.

A. As discussed by the Electric Reliability and Operations Panel, the Companies propose that their individual existing SAIFI and CAIDI targets and associated negative revenue adjustments be maintained. Once NYSEG Electric has completed its distribution vegetation management reclamation plan, it may be appropriate to adjust the NYSEG metrics.

Q. Are the Companies proposing to enhance their gas service quality and safety performance measures?

A. Yes. The Companies propose to maintain their current gas service quality and safety performance measures but with certain adjustments. As we noted previously, the Companies propose to increase the leak prone main replacement target from 24 miles in 2016 to 26 miles in 2017, and 28 to miles each year thereafter. The Companies also propose adjusting their leak prone service replacement measure such that they would report leak prone service replacements that are associated with the leak prone main replacement mileage and other main replacement projects instead of having a separate target for the individual leak prone service replacements. Finally, the Companies are proposing to improve performance in the area of Gas Record Audits by a minimum of 25% per year when compared to the historic four-year average.

F. <u>Performance Incentive Mechanisms</u>

Q. Have the Companies proposed new incentives in the various performance metrics for customer service, electric safety/service quality and gas safety/service quality?

A. Yes. Consistent with the Commission's REV vision, the Companies are proposing revenue adjustments that are more symmetrical. Instead of only negative revenue adjustments imposed for not meeting particular metrics, the

Companies propose various incentives for superior performance to encourage continuous improvement for the benefit of customers.

Q. What are examples of these incentive proposals?

A. For customer service metrics, the Companies propose a symmetrical revenue adjustment design. The Companies propose both positive and negative revenue adjustments associated with Contact Satisfaction and Percent of Calls Answered in Thirty Seconds.

Similarly, as discussed by the Electric Reliability and Operations Panel, the Companies propose a positive incentive mechanism related to their SAIFI and CAIDI performance. To the extent NYSEG and/or RG&E are able to exceed their existing SAIFI and/or CAIDI targets by 10% or more, a positive revenue adjustment would be made available.

To the extent either Company is able to exceed its current Gas Safety Performance Measure targets, the Companies propose an opportunity to receive a positive revenue adjustment as an incentive. The proposed incentives are generally 50% of the negative revenue adjustment for each category. For the Gas Record Audits measure, the Companies are also proposing an incentive mechanism such that should the actual annual occurrences reported by either Company be 75% or more below its respective four-year historic average, the Company would be awarded 10 positive basis points.

Q. How do the Companies propose to account for any incentives?

A. The Companies propose that incentives be treated similarly to negative revenue adjustments. To the extent an incentive is achieved, the Companies would defer the value of the incentive for future recovery from customers.

G. <u>Rate Design</u>

Q. Please describe the Companies proposed rate design modifications.

A. The Companies primary revenue allocation and rate design goals are adequacy, fairness and efficiency. Another important goal of the Companies is rate stability. In these proceedings, the Companies are proposing modifications to rate design as presented by the Revenue Allocation, Rate Design, Economic Development and Tariff Panel. The Companies utilize the results of embedded and marginal cost of service studies, filed in these proceedings, to develop electric and gas class revenue allocation and rate design proposals, including area/outdoor lighting, street lighting and standby rates. The Companies are also proposing new mechanisms and fees for potential services resulting from REV, along with new rate service offerings to be tested in the ESC Project. In addition, the Companies are also presenting the results of a study to redesign RG&E's gas delivery rate structures in a manner that is consistent with the gas delivery rate structures of NYSEG, along with proposed tariff modifications to increase consistency between the Companies' tariffs.

H. Emergency Preparedness

Q. How have the Companies responded to the recent volatile and shifting weather conditions, which have devastated certain communities as well as electrical transmission and distribution systems?

A. In November 2013, Iberdrola USA Networks, Inc. ("IUSA Networks") established an Emergency Preparedness Department. The Companies' Emergency Preparedness/Storm Panel proposes several additional initiatives related to emergency preparedness activities, such as weather service and technology enhancements and additional training. The Companies are also developing, documenting, and implementing an all-hazards approach to emergency preparedness.

I. Security

Q. Are the Companies proposing security plan enhancements?

A. Yes. As discussed by the Electric Reliability and Operations Panel, the proposed security plan enhancements address maintaining and upgrading the Companies' physical and cyber security infrastructure, including improved access control, video surveillance and alarming/detection capabilities, to mitigate risk to the public, our employees and the integrity of our assets. In developing the enhanced security plan, the Companies consulted with local municipalities, especially those impacted by recent major storms and integrated their input into the plan.

J. Depreciation

Q. Did the Companies perform depreciation studies as required by their current rate plans?

A. Yes. The Companies performed updated studies and have updated their excess depreciation reserve calculations, which are supported by the testimony of John Spanos of Gannett Fleming Valuation and Rate Consultants, LLC. The Companies are proposing to revise depreciation rates, with a depreciation expense reduction at NYSEG Electric and RG&E Gas and increases in depreciation expense at RG&E Electric and NYSEG Gas. The Companies have also performed excess theoretical depreciation reserve calculations. NYSEG Electric is proposing to lower its annual excess reserve amortization from $15.2 million to $11.4 million based on the 20-year amortization utilized in the 2010 Rate Plan. RG&E Electric is proposing to eliminate the excess reserve amortization because the new study indicates the theoretical reserve is within the 10% tolerance band. NYSEG Gas has a reserve deficiency and proposes an amortization of $2.8 million annually. RG&E Gas excess reserve is within the 10% tolerance band and no amortization is proposed.

K. Management Audit

Q. What management audit recommendations are addressed in these rate cases?

A. The Management Audit Panel addresses the status of all 75 recommendations in Case 13-M-0483, and the costs/savings associated with audit implementation, identifies how costs/savings are incorporated into O&M and capital data in the rate case filings, and summarizes the benefits of the management audit to customers.

Q. Can you comment on the benefit of the management audit to customers?

A. Customers have received benefits from the management audit process and the New York State Department of Public Service Staff ("Staff") has worked cooperatively with the Companies in a collaborative process that has provided tangible positive results. The benefits of the management audit process have outweighed the costs associated with performing the audit.

Q. Were there any audit recommendations with respect to Iberdrola Energy Projects ("IEP")?

A. Yes. Recommendation 2.1 recommended that the Companies examine the use of IEP.

Q. What is the status of this recommendation?

A. On December 23, 2014, IUSA Networks filed a staffing level update in Case 13-M-0483 reflecting the movement of IEP employees into the Companies' internal workforce and requested closure of the proceeding.

L. <u>Multi-Year Rate Plan</u>

Q. Are the Companies open to pursuing a multi-year rate plan?

A. Yes. The Companies are open to pursuing a multi-year rate plan through a settlement process with Staff and other interested parties.

Q. Does this complete your testimony at this time?

A. Yes, it does.