NEW YORK STATE Public Service Commission

New York State Regulatory Issues and Challenges

John Stewart
Director, Utility Rates and Service
New York State Public Service Commission
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Issues and Challenges

- Rate Cases
- Clean Energy
  - Energy Efficiency
  - Renewable Energy
  - Other Air and Water Regulations
- Infrastructure Investments
  - Traditional Utility Transmission and Distribution
  - Independently Sponsored Transmission Lines
  - Natural Gas from Marcellus Shale Deposits
- Agency Specific Issues

Electric and Gas Infrastructure

- 1995-2005: A period of long term rate plans for most New York electric and gas utilities
- Strong financial incentives to control costs
  - The earned return on common equity could be increased by spending less on operation and maintenance expenses
  - The earned return on common equity could be increased by investing less in utility plant

Electric and Gas Infrastructure

- Post 2005: Every major electric and gas utility has seen a significant increase in the need to upgrade their assets
- Con Edison
  - Average annual electric capital expenditures of $750 million 2000-04
  - Total Electric capital expenditures for 2005-07 were $3.9 billion or $1.3 billion per year
- Niagara Mohawk (National Grid)
  - Originally projected 2007-11electric capital expenditures of less than $1.0 billion
  - Subsequently updated three times to $1.5 billion, $2.4 billion and a range of $2.9-$3.2 billion
- Large capital expenditures increase rate base and have been a primary cause of our recent high inventory of rate cases

Rate Cases

- Largest Commitment of Resources With a Staff of 30-40 on the Largest Cases
- Commission has considered rate increase requests over last 2 years of over $3B
- Commission has rejected about $1.7B of the requested amounts

Recently Decided Rate Cases

Company	Amount Requested (Final Update)	Amount Approved	ROE Requested	ROE Approved	Date Commission Acted
NYSEG – Electric	$133.0 Million	$0	12.0%	N/A	April 2009
NYSEG - Gas	$42.0 Million	$0	12.0%	N/A	April 2009
RG&E – Electric	$65.5 Million	$0	12.2%	N/A	April 2009
RG&E - Gas	$32.8 Million	$0	12.2%	N/A	April 2009
Niagara Mohawk – Gas	$95.8 Million	$39.4 Million*	11.1%	10.2%	May 2009
Central Hudson – Electric	$52.9 Million	$39.6 Million	10.25%	10.0%	June 2009
Central Hudson – Gas	$17.3 Million	$13.8 Million	10.25%	10.0%	June 2009
Orange & Rockland – Gas	$23.7 Million	$9.0 Million**	11.6%	10.4%	October 2009
Con Edison - Electric	$944.3 Million	$540.8 Million***	10.9%*	10.15%	March 2010
Total	$1,407.3 Million	$642.6 Million			

Pending Rate Case

Company	Amount Requested	ROE Requested	Expected Decision Date
Central Hudson – Electric	$15.2 Million	10.0%	May 2010
Central Hudson – Gas	$4.0 Million	10.0%	May 2010
NYSEG – Electric	$169.7 Million	11.43%	September 2010
NYSEG – Gas	$63.4 Million	11.43%	September 2010
RG&E – Electric	$87.4 Million	11.43%	September 2010
RG&E – Gas	$62.9 Million	11.43%	September 2010
Con Edison – Gas	$174.0 Million	10.8%	October 2010
Con Edison – Steam	$135.0 Million	10.8%	October 2010
Niagara Mohawk - Electric	$390.6 Million*	11.1%**	December 2010
KEDNY – Gas SIR Costs	$35.2 Million***	N/A	December 2010
KEDLI – Gas SIR Costs	$39.5 million***	N/A	December 2010
Total	$1,176.9 Million		

Highlights of Con Edison Electric Joint Proposal

- Request filed May 9, 2009
- Three year proposal rate request (April 2010 – March 2013)
  - RY1 - $940.4 million (20.8%delivery/7.6% total bill)
  - RY2 - $386.9 million
  - RY3 - $376.1 million
    - Alternative Levelized Rate Option
      - $664 million/year (14.5% delivery/5.3% total bill)

Commission Staff Response

- Filed August 28, 2009
- RY1 Revenue Requirement
  - $512.2 million
- Recommended Stage Filings for limited items in Rate Years 2 & 3
  - Estimated revenue requirement for Capital Additions, Property Taxes and Pension/Opebs costs - $300 million/year

Commission Approves Agreement Among Parties in Rate Case

- Annual rate increases
  - $420.4 million/ year (9.6% delivery/ 3.6% total bill)
- Conventional Revenue Requirements
  - RY1 - $540.8 million
  - RY2 - $306.5 million
  - RY3 - $280.2 million

Commission Approves Agreement Among Parties in Rate Case

- Return on Equity – 10.15% (48% equity ratio)
- Earnings Sharing – RY1
  - Return on equity>**11.15% 50/50** Customer/Shareholder
    >12.15% 75/25
    >13.15% 90/10
- Earnings Sharing – RY's 2 & 3
  - Return on equity>**10.65% 60/40** Customer/Shareholder
    >12.15% 75/25
    >13.15% 90/10

Capital Spending Targets Approved for Con Edison

- Transmission & Distribution
  - RY1 - $1.20 billion ($1.20 B requested)
  - RY2 - $1.16 billion ($1.40 B requested)
  - RY3 - $1.14 billion ($1.38 B requested)
- Other – Production, Shared Services, Interference
  - RY1 - $220 million
  - RY2 - $207 million
  - RY3 - $195 million

New York State Clean Energy Initiatives

- Objective: 45% of all MWhs in New York provided by either renewable resources or energy efficiency by 2015 (45 x 15)
  - 30% Renewable Resources
  - 15% Energy Efficiency

Renewable Resources

- 19.5% of Energy Produced in NYS was from renewable resources, primarily hydro electric when goal was established.
- 10.4 million MWhs needed to achieve 30% renewable resources target
- Approximately 4.2 million MWhs of new renewable energy has been obtained
- Estimated Incremental Cost of Program through 2025 of about $2.5 billion.

Renewable Resources

- Large Renewable Energy projects obtained through a competitive bidding process with contracts through 2025
  - Wind
  - Hydro
  - Biomass

Renewable Resources

- Smaller scale behind the meter projects owned by customers are provided for by grants and incentives
  - Solar photovoltaic
  - Fuel Cells
  - Anaerobic Digesters
  - Small Wind
  - Solar Thermal

Energy Efficiency

- Within the last 18 months, the Commission has approved 90 energy efficiency programs for both electric and gas utility service
- Total Resource Cost test is used to evaluate with an premium to reflect cost of carbon emissions.
- Total Annual Cost is about $375 million

Energy Efficiency

- About 25 million MWhs required in New York
  - Electric Utilities regulated by the Commissioin are to provide about 7.7 million MWhs
- Remaining MWhs Provided Mainly by:
  - Existing Programs
  - State Owned Electric Utilities
  - Building Codes and Appliance Standards

Energy Efficiency

- Most efficiency programs are now up and running
- Expect the remaining programs to become operation by the end of the Summer
- Work at the Commission now shifts from evaluating costs and benefits of various efficiency options to evaluation, measurement and verification of the savings from each program.

Clean Energy: Other Actions

- Environmental Issues: Federal and State
  - Air Quality
    - Regional Greenhouse Gas Initiative
    - National Air Emission Limits
    - Coal Tax
    - Repowering Requirements
  - Water Quality and Aquatic Life

Clean Energy: Other Actions

- Implications
  - Electric Prices in Competitive Markets
  - Reliability of Service
  - Continued Operation of Nuclear Power Plants
  - Unintended Consequences

Internal Challenges

- Decline in workforce over 20 years from 780 to 520
  - Forces modifications to our traditional approach to issues
    - Rate cases
    - Use of outside consultants
- Aging workforce with over half the Commission Staff more than 50 years old
  - Training and Experience Needed for New Employees
  - Identifying Best New Employees
  - Plans for Replacing Key Personnel as a Result of Retirements and Attrition

Internal Challenges

- New York State Budget Situation
  - No Hiring of New Employees
  - Retirement Incentives
  - Other Cuts to Funding
- Weak Economy
  - Fewer Customers Able to Pay
  - More Complaints to Customer Service Representatives

Utility Infrastructure Challenges

- Gas, Electric and Steam Utility infrastructure is aging (reaching its 30 – 40 year life)
- Replacement requires significant capital investment (multi-billion) and investments are “lumpy”
- Results in annual consecutive rate increases

Utility Infrastructure Challenges

- Monitoring of utility capital programs to insure efficient project management and completion
- DPS Staff meets quarterly to review utility progress on major capital projects
  - Discuss project schedules and project cost variance and understand deviations from capital plans submitted and approved