

Update on NYS PSC's Upcoming Events, Recent Developments in New York's Energy Sector and Regional Energy Activities

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Recent Events at NYS PSC

- Commission Approves a 3-Year Rate Plan for Con Edison (March 2005)
 - The Rate Plan establishes new electric service delivery rates that fairly balance the company's need to cover reasonable costs related to infrastructure investments with other provisions that are beneficial to customers
 - ❑ *Promotes infrastructure investment, competition and demand management*
 - ❑ *Includes provisions for low-income customers*
 - ❑ *Strengthens and expands customer service performance mechanisms*

Recent Events at NYS PSC

- Commission Extends the Statewide “System Benefits Charge” (SBC) Program (December 2005)
 - Program is extended for 5 more years, and funding is increased to \$175 million annually
 - ❑ *NY ratepayers have accrued benefits since the inception of the program in 1998*
 - ❑ *Concerns regarding impact of higher energy prices on low-income customers (additional funds directed to programs for these customers)*
 - ❑ *Need to ensure the program has adequate resources to remain effective in the future*

Recent Events at NYS PSC

- Commission Established Rigorous Program of Annual Testing and Inspection of Electric Facilities (December 2004)
 - Jodie Lane -- Contact with a Con Edison electric service box (January 2004)
 - ❑ *The Commission directed PSC Staff to examine Con Edison's approach to safeguarding the public from stray voltage, and to determine whether changes were necessary*
 - ❑ *The Commission later expanded this investigation to examine stray voltage, and other safety-related activities taken by ALL of the regulated electric utilities*
 - Designed to ensure electric utility services were provided as safely as possible

Recent Events at NYS PSC

- Annual Testing/Inspection of Electric Facilities
(continued)
 - NY's regulated electric utilities must:
 - ❑ *annually test all of their publicly accessible transmission & distribution facilities for stray voltage*
 - ❑ *inspect all of their electric facilities at least once every 5 years*
 - Safety standards tie utility revenue adjustments to annual targets

Energy Policy Act of 2005

- First Comprehensive National Energy Legislation in 13 Years
 - The major provisions of the Energy Policy Act of 2005 affect both the electric and natural gas industries
 - ❑ *This Policy takes steps towards a more national and regional approach to the governance of electric power grids and markets, while easing the restraints on corporate structural borders*
 - Major implications for states:
 - ❑ *Repeal of the Public Utility Holding Company Act of 1935*
 - ❑ *Merger review reform*
 - ❑ *Transmission siting*
 - ❑ *Public Utility Regulatory Policies Act standards*

Energy Policy Act of 2005

➤ NYS PSC Proceedings Required for the Energy Policy Act of 2005

- Smart Metering

- ❑ *PSC must conduct a proceeding and decide by February 8, 2007 whether it is appropriate to implement the new federal standards requiring utilities to offer all customer classes time-based rates by February 8, 2007 (including time-of-use, critical peak and real-time pricing, and certain consumer credits)*
 - ❖ Competitive Metering Proceeding and Mandatory Hourly Pricing Proceeding
 - ❖ Legislative Statute prohibits mandatory time-of-use rates for residential customers
 - ❖ PSC will issue a Notice Seeking Comments on whether to require utilities to offer time-differentiated rates to all customer classes that are not already covered, on either a mandatory or voluntary basis, and whether such rates should be hourly or time-of-use (on-peak, shoulder, off-peak differentiated), as well as other related issues

Energy Policy Act of 2005

- NYS PSC Proceedings Required for the Energy Policy Act of 2005 *(continued)*
 - Net Metering, Fuel Sources, and Fuel Efficiency
 - ❑ *PSC must start a proceeding to consider requiring net metering, generation fuel diversity, and fossil fuel generation plant efficiency, and decide by August 8, 2008 whether to implement such standards*
 - Interconnection
 - ❑ *PSC has previously adopted provisions for the interconnection of distributed generation facilities, which are comparable to the interconnection standard*

Energy Policy Act of 2005

- NYS PSC Implementation Priorities for the Energy Policy Act of 2005
 - Federal Energy Regulatory Commission rulemaking regarding the establishment of an Electric Reliability Organization and treatment of reliability standards
 - ❑ *PSC regulations implement NY carve out for reliability standards*

Energy Policy Act of 2005

- Implementation Priorities for the Energy Policy Act of 2005 *(continued)*
 - Federal Energy Regulatory Commission regulations on transmission infrastructure investment
 - ❑ *The Federal Energy Regulatory Commission must establish incentive-based (including performance-based) rates for electric transmission which allow recovery of all prudently incurred costs of complying with the reliability standards and facilities siting*

Energy Policy Act of 2005

- Implementation Priorities for the Energy Policy Act of 2005 *(continued)*
 - Federal Energy Regulatory Commission regulations on electric transmission siting
 - ❑ *Siting of facilities within National Interest Transmission Corridors*
 - ❖ The Federal Energy Regulatory Commission has permitting authority for proposed facilities within an National Interest Transmission Corridor if a PSC has “withheld approval” for more than 1 year after the filing of any application

Energy Policy Act of 2005

- Implementation Priorities for the Energy Policy Act of 2005 *(continued)*
 - NYS Department of Energy regulations for determining what is the National Interest Electric Transmission Corridor, and the congestion study
 - *Transmission Facilities Siting – The Department of Energy must:*
 - ❖ Study transmission congestion in consultation with affected States, and it must issue a report designating the “National Interest Transmission Corridors” by August 8, 2006
 - ❖ Promulgate regulations for coordinated federal review or proposed transmission facilities within a National Interest Transmission Corridor by February 8, 2007

Energy Policy Act of 2005

- Implementation Priorities for the Energy Policy Act of 2005 *(continued)*
 - Study of competition in wholesale and retail electric market
 - ❑ *An inter-agency task force conducted a study and analysis of competition in the wholesale and retail markets*
 - ❖ US Department of Justice
 - ❖ US Department of Energy
 - ❖ Federal Energy Regulatory Commission
 - ❖ Federal Trade Commission
 - ❖ Rural Utilities Service

Energy Policy Act of 2005

- Implementation Priorities for the Energy Policy Act of 2005 *(continued)*
 - Study of competition in wholesale and retail electric market *(continued)*
 - ❑ *This study can be obtained at www.ferc.gov/legal/staff-reports/competition-rpt.pdf*
 - ❑ *The NYS PSC submitted comments on June 26, 2006*

Dramatic Rise in Natural Gas Prices in 2005

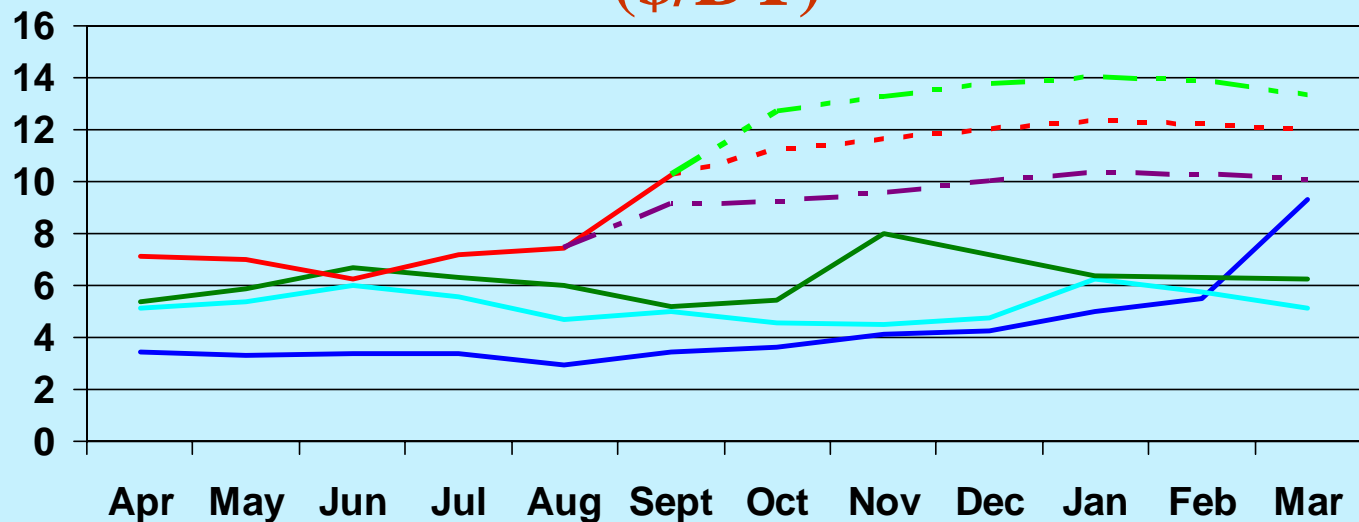
- Multiple Factors Contributed to the Dramatic Rise in Natural Gas Prices in 2005
 - Prices had been rising during the summer due to a tight balance between supply and demand
 - Record high oil prices
 - Increased use of natural gas for power generation
 - A warmer than normal summer (resulted in strong demand for natural gas to fuel electric generation)

Dramatic Rise in Natural Gas Prices in 2005

- Multiple Factors Contributed to the Dramatic Rise in Natural Gas Prices in 2005 (continued)
 - Hurricane Katrina
 - ❑ *Caused extensive damage to three critical infrastructure areas:*
 - ❖ Production area facilities, including drilling platforms
 - ❖ Undersea pipe in the Gulf of Mexico
 - ❖ Onshore compressor stations and gas processing plants
 - ❑ *Damaged infrastructure included oil facilities*
 - ❑ *Increased the upward pressure on prices*

Dramatic Rise in Natural Gas Prices in 2005

NYMEX GAS FUTURES PRICES (\$/DT)

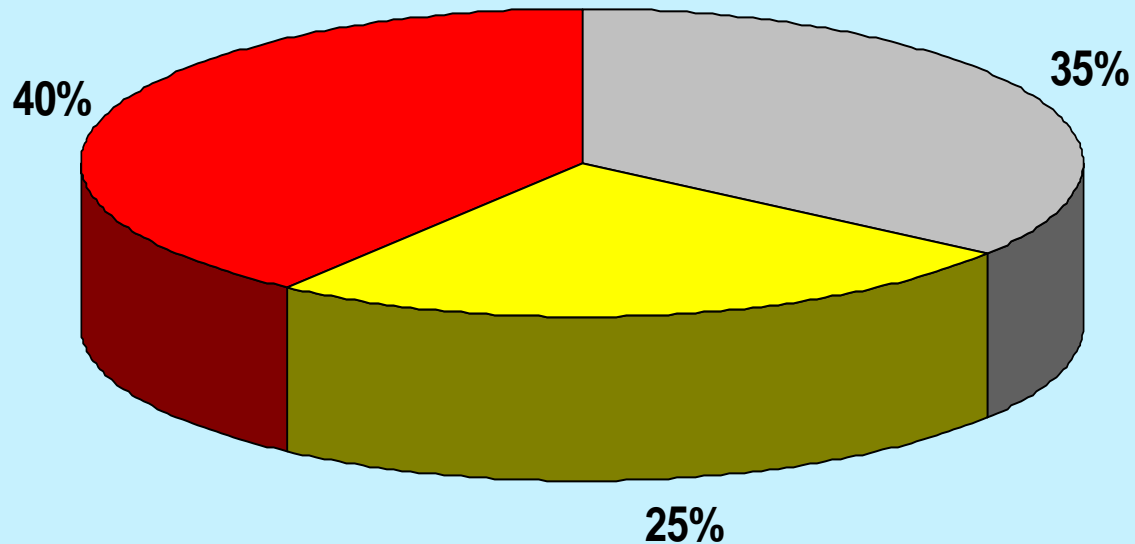


Dramatic Rise in Natural Gas Prices in 2005

- Price Mitigation for Natural Gas Bill Increases
 - Commission's Policy Statement on Purchasing Practices and Portfolio Diversity
 - ❑ *NYS Local Distribution Companies have diversified portfolios of supply*
 - ❖ Companies use a combination of gas priced at current market, gas withdrawn from storage, and hedged price contracts
 - ❖ Having gas in storage provides a natural hedge that can help mitigate price volatility

Dramatic Rise in Natural Gas Prices in 2005

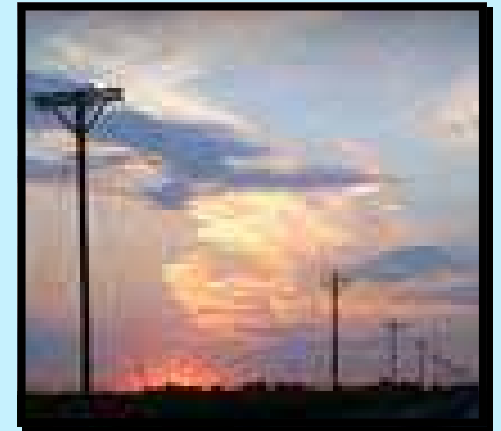
New York State LDC Typical 2004-05 Winter Supply Portfolio



Storage Hedged Unhedged

Rising Electricity Prices in 2005

- Rising Natural Gas and Oil Costs Place Upward Pressure on Electricity Prices
 - Gas and oil are used to generate a significant portion of NY's electricity (about 30%)
 - ❑ *The power purchased by utilities in the wholesale market is passed along to customers at the cost utilities pay for it (utilities neither mark up or profit from the sale)*



Rising Electricity Prices in 2005

➤ Electricity Price Control?

- NY and other states do not have the authority to control the price of fuels imported into the state for use in generating electricity sold in wholesale markets
- PSC does have authority, through the implementation of improved pricing mechanisms and certain demand response programs, to influence the demand by customers for the highest priced electricity, which can then help reduce wholesale price volatility for the entire market

Rising Electricity Prices in 2005

- Price Mitigation Factors that Offset Electric Bill Increases
 - Most electric utilities, and many of the competitive Energy Service Companies, have fixed price contracts with generators for a portion of their electric supplies, rather than depending entirely on purchases from the sometimes volatile wholesale market
 - Cost of purchased electric commodity that is passed directly through to the customers is only part of the total bill that consumers pay for electricity
 - ❑ *Other bill components remain largely unaffected by the increase in fuel prices to the generation owners*

Customer Bill Impacts

- Significant Customer Bill Impacts Forecasted for 2005-2006 Winter Heating Season
 - Natural gas customer winter bills were forecast to increase by approximately 25-35%
 - Electricity customer bills were forecast to increase by approximately 10-25%

NYS PSC Response to Rising Energy Prices and Hurricane Impacts

- The Energy Price Response Team Initiative (Fall 2005)
 - NYS PSC formed the Energy Price Response staff team to investigate ways to mitigate the impact of increased fuel prices on gas and electric customers
 - Recommended action areas of investigation
 - ❑ *Outreach and Education Campaign*
 - ❑ *Real-Time Pricing for largest electric customers*
 - ❑ *Low Income Energy Efficiency/Customer Assistance Programs*
 - ❑ *Arrears/Late Payment Charges*

NYS PSC Response to Rising Energy Prices and Hurricane Impacts

➤ PSC Expanded the Winter Outreach and Education Efforts (Fall 2005)

- Commission's statewide "Have an Energy Smart Winter" campaign
 - ❑ *Winter Campaign goal was to provide customers with useful information*
 - ❖ What consumers could expect this year
 - ❖ Steps consumers could take to conserve energy and control their heating bills
 - ❖ Fact that consumers could choose to purchase their natural gas and electricity from competitive suppliers
 - ❖ Expanded and targeted energy efficiency programs

NYS PSC Response to Rising Energy Prices and Hurricane Impacts

- PSC Ordered the Utilities to File Draft Tariffs Within 60 Days to Make Real-Time Hourly Pricing Mandatory for the Largest Customer Classes (Fall 2005)
 - Goal to put downward pressure on wholesale electricity prices in the short term
 - Real-time pricing programs can provide significant value by assisting utilities and their customers in reducing peak-load demands and in shifting load to off-peak, less expensive time periods

NYS PSC Response to Rising Energy Prices and Hurricane Impacts

- PSC Staff Initiates Additional Work With the NY Independent System Operator (Fall 2005)
 - To ensure that close monitoring of the electric markets is continuing, and possibly even expanded, to ensure that markets are operating efficiently, fairly, and as intended
 - To explore ways to encourage more participation in the NY Independent System Operator's economic demand response programs

Top Electric Issues for 2006

- System Planning, Reliability and Safety
 - Electric Safety Standards: Adopted January 2005
 - Electric distribution system reliability
 - ❑ *Guidelines for storm restoration efforts*
 - ❑ *Monitor/Assess reliability performance and infrastructure investments*
 - ❑ *Refine reliability performance mechanisms*
 - NY Independent System Operator Electric System Planning Process: Inform market on system reliability needs and economic opportunities
 - Transmission siting and new wind generation

Top Electric Issues for 2006

➤ Competitive Retail Energy Markets and Utility Commodity Pricing

- Competitive Retail Markets: Commission's August 2004 Policy Statement and Order on Rate Unbundling
- Hourly Pricing: April 2006 Commission approval of the utilities' Hourly Pricing Programs
- Utility Default Commodity Service -- Issues Under Consideration:
 - ❑ *Type of utility default rate and optional rates that should be offered*
 - ❑ *Should the value of new utility hedges benefit utility full service customers or all customers (including ESCOs customers)?*
 - ❑ *What type of utility supply portfolio information should be made public?*
 - ❑ *Level of volatility mitigation desired for mass market customers*

Top Electric Issues for 2006

- Energy Efficiency, Environmental and Renewable Initiatives
 - Renewable Portfolio Standard: September 2004 Commission approval to develop a RPS
 - System Benefits Charge III
 - ❑ *Commission approved a 5-year extension in December 2005 and raised funding level from \$150 to \$175 million*
 - Regional Carbon Cap and Trade Program
 - ❑ *7 Northeastern States agreed to implement the Regional Greenhouse Gas Initiative on December 2005*

Top Electric Issues for 2006

- Energy Efficiency, Environmental and Renewable Initiatives *(continued)*
 - Con Edison Demand Management Program: March 2006 Commission approval for Con Edison to deploy 300 MW of load reduction
 - ❑ *Type of utility default rate and optional rates that should be offered*
 - Competitive wholesale energy markets
 - ❑ *Generation infrastructure*
 - Rate cases and mergers

Regional Greenhouse Gas Initiative

➤ Program Components

- Start date of 2009
- Covers power plants 25 MW+
- Two-Phase Cap
 - ❑ *Stabilize emissions through 2015*
 - ❑ *Reduce 10% by 2019*
- Comprehensive review of program in 2012

