Annual Report

Fiscal Year 2012 – 2013

New York State Department of Public Service

Garry A. Brown/Chairman
Andrew M. Cuomo/Governor

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MISSION STATEMENT

The mission of the ***New York State Department of Public Service*** *is to:*

- *Ensure safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York's residential and business consumers, at just and reasonable rates.*

- *Seek to stimulate innovation, strategic infrastructure investment, consumer awareness, competitive markets where feasible and the use of resources in an efficient and environmentally sound manner.*

The Department of Public Service has a broad mandate to ensure that all New Yorkers have access to reliable utility services. The Department is the staff arm of the Public Service Commission. The Commission regulates the state's electric, gas, steam, telecommunications, and water utilities. The Commission is charged by law with responsibility for setting rates and ensuring that adequate service is provided by New York's utilities. In addition, the Commission exercises jurisdiction over the siting of major gas and electric transmission facilities and has responsibility for ensuring the safety of natural gas and liquid petroleum pipelines.

Bipartisan by law since 1970, the Commission consists of up to five members, each appointed by the Governor and confirmed by the State Senate for a term of six years, or to complete the unexpired term of a former Commissioner. The Chairman, designated by the Governor, is the chief executive officer of the Department of Public Service.

Message from the Chairman . . .

The Fiscal Year beginning April 1, 2012 and ending March 31, 2013, was a very productive year for the Public Service Commission and Department of Public Service. The rapidly evolving industries we regulate, the implementation of new regulations and policies, and on-going oversight of utility operations and response to major events, such as the unprecedented damaged caused by Superstorm Sandy required an increased level of regulatory oversight by the Commission and staff. Last year, the Commission issued 532 orders. The decisions the Commission made required the assistance of a dedicated and focused team. Below is a summary of actions taken during the 2012-2013 Fiscal Year.

RESPONSE TO MAJOR EVENTS and INITIATIVES

The devastating Superstorm Sandy struck on October 29, 2012, and left more than 2.1 million customers without power in New York, the vast majority on Long Island and the New York metropolitan area. It took more than 7,000 utility crews — drawn from in-state utilities and utilities as far away as California — to help restore the electricity.

The Public Service Commission in November 2012 reported that power had been restored to nearly all those who lost power as a result of Superstorm Sandy, and utility efforts continued to restore remaining customers without electric service. While the Department worked diligently to monitor the utilities' efforts to rebuild after Superstorm Sandy, it was also busily embarking on efforts to strengthen New York's electric and natural gas infrastructure. In November 2012, the Public Service Commission took action on three items highlighted in Governor Andrew M. Cuomo's *Energy Highway Blueprint* issued by the Energy Highway Task Force in October 2012. The actions taken were designed to examine plans and alternatives to ease transmission congestion to meet current and future power needs by providing downstate New York access to lower-cost power; plan for possible major power plant retirements; and study the expansion of natural gas delivery to homeowners and businesses in New York State.

ENSURING JUST and REASONABLE RATES

In the 2012-2013 Fiscal Year, the Public Service Commission adopted a three-year rate plan for National Grid's electric and gas service. Total electric delivery charges were decreased by 8.7 percent in the first year, and will increase 2.8 percent in the second and third years; and total gas delivery charges decreased 6.7 percent in the first year and will increase 4.8 percent in the second year and 4.9 percent in the third year. Low-income monthly bill discounts for gas customers increased as well as outreach and education funding. National Grid provides electricity service to approximately 1.5 million customers and natural gas service to approximately 540,000 customers in upstate New York.

The Commission also approved a three-year rate plan for Corning Natural Gas. Annual revenues increased 3.96 percent in rate year one, 3.77 percent in rate year two and 1.31 percent in rate year three. The rate plan also called for enhanced outreach and education, a new low-income credit program, and a new accounting system that allows for budget billing during winter months.

The Commission also authorized Orange Rockland Utilities, Inc. to increase base electric delivery revenues by approximately $15.2 million for each of the three years on a levelized basis, or an average annual increase of 5.8 percent. The three-year rate plan included earnings sharing mechanism as well as increased monthly discounts for low-income heating customers.

ENSURING SAFETY and RELIABILITY

The Public Service Commission commenced a proceeding to advance recommendations made by Governor Andrew M. Cuomo's NYS2100 Commission to establish a stockpile of critically needed equipment and supplies for the mutual use of the State's largest electric and gas utilities during future natural disasters. The proceeding will examine current mutual aid equipment and materials practices of all major utilities and develop a process to allow for a regional or statewide stockpile of capital assets and critical equipment and for the subsequent sharing of these assets.

Another proceeding was instituted to examine repowering alternatives to utility power plant reinforcements and the Commission directed National Grid and NYSEG to work with generation owners to evaluate repowering of two power plants in upstate New York. The Commission also received a report from Department of Public Service staff that both NYSEG and RG&E failed to adequately protect confidential customer information from unauthorized access by outside parties. The companies were directed to refine policies, processes and procedures regarding confidentiality safeguards. A Certificate of Environmental Compatibility and Public need was granted to Long Island Power Authority (LIPA) to increase the design capacity of the existing 10.6 mile Wildwood to Riverhead electric transmission line from 69 kilovolt (kV) to 138 kV, to increase reliability and meet forecasted increase in demand.

In addition, the Commission directed Con Edison to establish a $5 million credit for ratepayers from shareholder funds as a result of its failure to meet certain reliability goals under its rate plan

PROMOTING ENERGY EFFICIENCY

The Commission voted to make it easier for Con Edison customers to install combined heat and power (CHP) generating facilities on their premises and to offset the output of that generation against the customer's building usage in multiple building or campus-style settings. As a result, the economic burden on customers of CHP interconnections was reduced and the overall economics of CHP projects improved.

The Commission approved NYSERDA's request to modify various Energy Efficiency Program budgets and targets and reallocated $58.6 million for a CHP program, $28.1 million for a workforce development initiative, and $13.8 million to the low-income EmPower natural gas program.

Finally, to boost participation in National Fuel's low income energy efficiency program, the Commission reallocated $1.1 million annually to the program.

DEVELOPING RENEWABLE ENERGY RESOURCES

As part of Governor Andrew Cuomo's NY-Sun Initiative, the Public Service Commission approved New York State Energy Research & Development Authority's (NYSERDA) request to double funding for customer-sited solar electric systems, or solar photovoltaic (PV) energy systems, to $432 million over four years and to quadruple that amount in 2013. The expanded solar program increased funding for large, commercial-sized PV projects and small-to-medium residential and commercial systems.

The Commission also reallocated more than $25 million in uncommitted System Benefits Charge (SBC) funds for new Technology and Market Development initiatives, including $10 million for a new solar photovoltaic program, $10 million for development of technologically advanced energy storage systems, and $5.76 million to expand the Advanced Buildings Program.

To promote and support development of residential and business renewable energy installations, the Commission tripled the net metering limit from 12 Megawatts (MW) to 36 MW for solar and other net-metered technologies in Central Hudson's service territory.

To help boost participation in the "behind-the-meter" on-site wind program, the Commission authorized NYSERDA to increase the maximum incentive amount from $400,000 up to $1 million per installation for the on-site wind program.

To promote renewable energy development and in support of the Governor's NYS2100 Commission, the Commission made it easier to install distributed generation equipment, or on-site generation equipment, in homes and businesses to generate electricity.

EXPANDING CONSUMER PROTECTIONS

In response to a pattern of marketing abuse and consumer complaints in violation of the Uniform Business Practices, the Public Service Commission directed Liberty Power, an energy service company, to show why it should not have its eligibility to offer services in New York State revoked.

With the restructuring of the energy industry over a decade ago, the Commission also initiated a formal proceeding to assess retail energy markets and identify actions it could take to improve the operation of the markets to benefit customers.

Recognizing the disruption Superstorm Sandy had on utility customers' service, the Commission voted to allow electric and gas utilities to provide a one-time credit to customers, and required suspension of late payment charges for adversely affected customers in a 13-county area.

MONITORING and REVIEWING UTILITY ACTIONS

To ensure safety and reliability, the Public Service Commission completed a statewide examination of the state's utilities preparation for and response to a series of devastating storms that wracked New York in the summer and fall of 2011. While many improvements have enhanced utility performance, all the State's utilities were directed to improve in several areas.

The Commission also received a report from Department of Public Service staff assessing electric service reliability in New York State.

In addition, Department of Public Service staff provided a report to the Commission on 2011 Gas Safety Performance Measures which assessed safety performance in three areas – damage prevention, emergency response, and leak management. In general, improvements were seen in all three areas. Similarly, staff reported to the Commission on electric safety standards related to stray voltage and noted that for 2011 the utilities met the requirements and continued to provide safe electric service and ensure that the public was not put at risk from instances of stray voltage.

Based on an annual review of local utilities' winter preparedness, Department staff reported to the Commission in that utilities providing natural gas service in the state had adequate supplies, delivery capacity, and storage inventory to satisfy customer demand under severe winter conditions.

The Commission received an update from Department staff outlining electric utilities' summer preparedness, and that a review of the supply of electric generation capacity and transmission system condition in the state indicated that the system was ready to provide adequate and reliable service for the summer.

Finally, the Commission undertook several actions to monitor utility companies' management and operations practices. The Commission selected Schumaker & Company, a management consultant firm, to perform a comprehensive management audit of National Fuel Gas; the Commission accepted an independent audit conducted by Liberty Consulting Group regarding Iberdrola and its affiliates New York State Electric and Gas and Rochester Gas and Electric, and ordered that an implementation plan for the audit recommendations be filed; and the Commission ordered National Grid New York, as part of an affiliates audit process, to more actively manage and control service company costs.

Garry A. Brown
Chairman

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I. RESPONSE TO MAJOR EVENTS AND INITIATIVES

Power Restored Following Superstorm Sandy

The Public Service Commission in November 2012 reported that power had been restored to nearly all those who lost power as a result of Superstorm Sandy, and utility efforts continued to restore remaining customers without electric service.

The devastating Superstorm Sandy struck on October 29, 2012, and left more than 2.1 million customers without power in New York, the vast majority on Long Island and the New York metropolitan area. It took more than 7,000 utility crews — drawn from in-state utilities and utilities as far away as California — to help restore the electricity.

Fallen trees and downed power lines in Con Edison service territory. *Photo taken by DPS field staff*

Superstorm Sandy caused multiple system outages in the service territories of the Long Island Power Authority, Con Edison, Orange & Rockland Utilities, New York State Electric & Gas, National Grid, Central Hudson Gas & Electric, and Rochester Gas and Electric.

Governor's Energy Highway Initiatives Supported

In November 2012, the Public Service Commission took action on three items highlighted in Governor Andrew M. Cuomo's Energy Highway Blueprint issued by the Energy Highway Task Force in October 2012. The actions taken were designed to examine plans and alternatives to ease transmission congestion to meet current and future power needs by providing downstate New York access to lower-cost power; plan for possible major power plant retirements; and study the expansion of natural gas delivery to homeowners and businesses in New York State.

> *The unprecedented restoration effort related to Superstorm Sandy was the largest operation of its kind in New York State's history.* – PSC Chairman Garry Brown

The Energy Highway initiative, introduced in the 2012 State of the State address, is a centerpiece of the Governor's Power NY agenda, designed to ensure that New York's energy grid is the most advanced in the nation and promotes increased business investment in the state.

In light of the catastrophic devastation caused by Superstorm Sandy, improvements envisioned by the Governor's Energy Highway initiative will help create a stronger, more resilient energy infrastructure network that is better able to deal with the possible impact of future storms.

In response to the Energy Highway Blueprint recommendations, the Commission commenced a first-of-its-kind proceeding to review specific proposals from utilities and private developers for new transmission lines and upgrades to existing facilities that will address congestion on the transmission system between Utica and New York City.

The transmission system program contemplated in the Blueprint would expand and strengthen the state's high voltage transmission system in this corridor by building roughly $1 billion worth of transmission projects, providing over 1,000 MW of additional transmission capacity. This could support both environmental goals and economic development by providing access by upstate power generators, including new clean energy projects, to downstate markets, from where they are currently constrained due to bottlenecks in the transmission system. New transmission capacity will also serve to benefit downstate businesses and consumers because they will have access to lower wholesale energy prices from upstate.

The Blueprint recognized that the development of plans to address reliability concerns in the event of generator retirements is an important initiative. The Blueprint also recognized the potential retirement or unavailability of a major facility in New York's generating and transmission infrastructure requires the state to plan well advance.

The Commission also began a proceeding to develop a contingency plan in the event of a closing of Indian Point, two nuclear power plants located in Westchester County, approximately 30 miles north of Manhattan. Consolidated Edison was directed to work with the New York Power Authority to develop and file a contingency plan to address the needs that would arise in the event the Indian Point units shut down.

The Blueprint further called for an examination of existing barriers to the expanded use of natural gas service by residential and businesses customers in the state and appropriate measures to reduce or eliminate potential barriers.

A growing, vibrant economy requires an energy production and delivery system that provides the stable foundation companies need to invest in their facilities and workforce, to expand operations and hire new workers. In addition to strengthening the economy, the Energy Highway will enhance New York State's investment in clean energy production. - PSC Chairman Garry Brown.

Finally, the Commission's actions led to the review of regulations and policies that may unduly constrain the availability of natural gas and/or other factors influencing customer conversions. (Cases 12-T-0502, 12-T-0505, 12-G-0297)

II. AUDITS AND INVESTIGATIONS

National Fuel Gas Audit

The Public Service Commission in May 2012 selected Schumaker & Company to perform a comprehensive management audit of National Fuel Gas Distribution Corporation's New York business.

In January 2012, the Commission authorized the issuance of a Request for Proposal for an independent third-party consultant to conduct a comprehensive management and operations audit of NFG's New York business with a specific focus on construction program planning processes and operational efficiency.

Five management consulting firms submitted proposals and based on review and evaluation, Schumaker & Company of Ann Arbor, Michigan was chosen to conduct the audit for a potential total cost of the audit not to exceed $837,979. (Case 11-G-0580)

Iberdrola Management Audit

In August 2012, the Public Service Commission accepted an independent management audit conducted by Liberty Consulting Group, and ordered Iberdrola, S.A. and its New York affiliates, New York State Electric and Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E), to file an implementation plan to address all of management audit recommendations outside of the corporate structure and governance areas.

The primary goal of the audit was to identify opportunities to improve NYSEG's and RG&E's construction program planning processes and operational efficiency. The approach of the audit was to examine existing functions, processes, systems, organizations, and staffing, as well as past performance, for the purposes of defining prospective changes to improve future performance.

The auditing of a utility company's management and processes is an essential tool in our regulatory tool box. This management and operations audit was thorough and focused on identifying improvements in these utilities' construction program planning processes and operational efficiencies. – PSC Chairman Garry Brown

Liberty put forth 75 recommendations, and Iberdrola was required to explain to the Commission whether it would reject or modify any of the recommendations, and was directed to work with Department staff on the final recommendations. The most notable audit recommendations included the following:

- Suspend indefinitely the provision of services by affiliate Iberdrola Energy Projects, the parent company's construction subsidiary, to the New York utilities.
- Consolidate the gas business under a single executive reporting to the chief operating officer.
- Move to a five-year vegetation management trim cycle on all circuits.
- Evaluate the most cost-effective size of the overall internal workforce, and strive to achieve a balanced and cost-effective workforce level.
- Complete a major overhaul of capital budgeting processes and activities, to produce a more structured, realistic, and supported approach to capital budget development and monitoring. (Cases10-M-0551,12-M-0066)

National Grid Affiliates Audit

The Commission in January 2013 ordered National Grid's New York utilities to more actively manage and control service company costs, including periodic competitive benchmarking of the costs of services purchased from affiliates to the cost of obtaining the services from alternative sources. The Commission also initiated a new proceeding to determine exactly how much New York ratepayers overpaid in rates for services rendered by affiliated service companies.

In 2010, the Commission undertook an independent audit of affiliate cost allocations, policies and procedures of National Grid USA as applied to its New York companies: Niagara Mohawk Power Corporation, Brooklyn Union Gas Company, d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation, d/b/a KeySpan Energy Delivery Long Island; and the following National Grid service companies: National Grid USA Service Company, Inc.; National Grid Corporate Services, LLC; National Grid Utilities Services, LLC; and National Grid Engineering and Survey, Inc.

There were two primary reasons the Commission conducted a management audit of National Grid's service company affiliates. First, a 2009 PSC-mandated audit of Niagara Mohawk's electric business determined that the company had no effective means of managing and controlling the level and costs of services provided by its service companies. Subsequently, in the 2010 Niagara Mohawk's electric rate case, Department of Public Service staff presented testimony detailing alleged internal control deficiencies, misallocation of costs and questionable transactions included in service company charges to Niagara Mohawk. These inaccurate cost allocations were reflected in the rates that the company had proposed, and, if no other adjustment had been made, would have been reflected in the 2011 revenue requirement.

Instead of simply putting the costs into the rates customers would pay, the Commission wanted to determine if any service company transaction cost allocation procedures resulted in unreasonable costs for the provision of delivery service to New York ratepayers. Thus, in 2011, the Commission made $50 million of Niagara Mohawk's electric rates temporary subject to the results of this audit of service company expenses.

The Commission also wanted to determine if the earnings reported for sharing with ratepayers under the current rate plans for the other National Grid NY utilities included misallocated and inappropriate service company charges.

A completed independent examination performed by Overland Consulting identified 10 recommendations primarily related to the accounting systems and internal controls of the National Grid service companies, their allocation of costs and the New York utilities' control and monitoring of these costs.

Based on the results of its service company transaction testing during the investigation, the auditor estimated that National Grid's New York utilities were overcharged $44 million, and that an additional $11.2 million in non-recurring charges should have been excluded from National Grid's most recent electric rates.

National Grid was directed to submit an implementation plan with regard to the audit report recommendations.

The Commission also initiated a new proceeding to examine the independent auditor's estimate of overcharges for those New York utilities, and the purported nonrecurring charges included in electric rates, where there is the potential for a rate adjustment. (Case 10-M-0451)

III. CONSUMER PROTECTION ISSUES

LIFE Conference

The Public Service Commission and the New York State Energy Research and Development Authority (NYSERDA) in May 2012 held the Low-Income Forum (LIFE), a statewide conference in Albany, NY to address issues confronting low-income consumers, including affordable energy efficiency programs, bill payment assistance programs and consumer protections.

LIFE is the nation's longest-running

The LIFE forum provides a critical path for community leaders and service providers to share essential information that can help low-income New Yorkers maintain their utility service during challenging economic times. Energy efficiency programs play a critical role because they are the most cost-effective, and more immediate, means to reduce the burden of energy costs not only for low-income customers, but for all customers. -PSC Chairman Garry Brown statewide dialogue on the energy needs of low-income customers, and it has built a reputation as an interactive exchange of ideas and resources. The 2012 LIFE forum built on lessons learned in prior conferences and featured sessions on low cost or no cost energy saving actions, options for financing energy efficiency improvements, and information on resource programs that assist low-income energy customers.

Retail Energy Market Issues Assessed

The Public Service Commission in October 2012 began a formal proceeding to assess retail energy markets and identify possible actions that it could take to improve the operation of these markets for the benefit of customers.

> *Department staff reviewed the performance of the retail electricity and natural gas markets particularly for residential and small non-residential customers. As a result of its review, staff raised concerns and questions about certain aspects of the retail market and the Commission began a new proceeding to further examine the operations of these markets and explore possible actions to improve their efficiency*. - PSC Chairman Garry Brown

The energy industry in New York was restructured more than a decade ago. Currently, utilities provide commodity service that, for residential and small non-residential customers, reflects some hedging to reduce retail price volatility. All customers of major electric and natural gas utilities in New York State have the choice to purchase energy from their utility, or from an energy services company (ESCO). In 2012, approximately 85 ESCOs were certified to provide electricity in New York State and more than 100 ESCOs were certified to provide natural gas.

Staff conducts an ongoing review of the performance of retail energy markets to determine if they are functioning as intended and to identify opportunities for improvement. As part of this review, Staff met several times with groups of ESCOs and/or their trade associations.

Staff also requested and analyzed data from utilities concerning the prices charged and/or dollar amounts billed by ESCOs, in comparison with what would have been billed by the utility for the same service, and also reviewed ESCO-related consumer complaints received by the Department.

Staff reported that it is very difficult for energy consumers, particularly residential and small non-residential customers, to know and compare prices of electricity and natural gas commodity services that are available from the utility and ESCOs. Staff further reported that the pricing and billing data that it reviewed for residential and small non-residential customers revealed a wide range of prices paid by ESCO customers. Some of the variations in prices may be because of value-added services offered by ESCOs, such as fixed prices and electricity from renewable sources. (Case 98-M-1343 or 06-M-0647)

Superstorm Sandy Customer Credits

The Commission in December 2012 approved a one-time customer credit to customers impacted by Superstorm Sandy, and required the electric and natural gas utilities to further suspend late payment charges for adversely affected customers in a 13-county area through January 31, 2013, due to payment barriers caused by Superstorm Sandy.

In November 2012, Consolidated Edison Company of New York, Inc. (Con Edison) and Orange & Rockland Utilities, Inc. (O & R) filed a petition with the Commission seeking waiver of certain tariff charges to provide electric and steam customers a one-time bill credit reflecting the customer charge for days they were without service due to Superstorm Sandy. In December 2012, New York State Electric & Gas Corporation (NYSEG), National Grid New York (KeySpan Energy Delivery NY/KEDNY and KeySpan Energy Delivery LI/KEDLI) KEDNY and KEDLI filed similar petitions.

Con Edison provided total credits of approximately $6 million, representing residential credits to customers who lost service of $3 for customers in Manhattan and $6 for customers outside of Manhattan; O&R $800,000, representing a residential credit of $3; NYSEG $500,000, representing an average residential credit of $3 to $4; KEDNY and KEDLI $23,815 and $196,705, respectively, representing an average residential credit of $4 or more, based on the length of time a customer was without service. Credits were provided to commercial and industrial customers as well. The utilities have agreed to absorb the cost of the customer bill credits.

As a result of Superstorm Sandy, the Commission also authorized in November 2012 a temporary waiver and suspension of late payment charges for residential and non-residential customers of Con Edison, KEDNY and KEDLI, and on an individual community basis for other electric and gas utility customers through December 15, 2012. (Cases12-M-0533, 12-M-0545, 12-M-0554 or 12-G-0555, and Case 12-M-0501)

As a result of Superstorm Sandy, many utility customers were left without vital electric or natural gas service for a period of time, and were not able to pay their utility bills on time. Providing the one-time bill credit and waiving late payment charges on customers' bills was appropriate under such unusual circumstances. - PSC Chairman Garry Brown

Submetering Regulations Revised

The Public Service Commission in December 2012 adopted modified residential electric submetering regulations, 16 NYCRR Part 96, to reflect changes in Commission policy, the evolving energy market, new energy efficiency technologies and additional consumer protections.

The revisions addressed the implementation of Public Service Law Part 53 which applied the Home Energy Fair Practices Act to submeterers; incorporated Commission policies established in other submetering orders; established a bifurcated review process to expedite routine requests for authorization to submeter; required compliance with Commission meter accuracy and operational standards; clarified the conditions to which submeters must provide service; created specific requirements for premises that submeter electric heat; and provided remedies in situations where submeters fail to meet tariffed service conditions or cure such failures. (Case 11-M-0710)

Energy Service Company's Eligibility Scrutinized

In March 2013, the Public Service Commission directed Liberty Power Holding LLC. (Liberty Power) to demonstrate why the Commission should not revoke the company's eligibility to offer services as an energy services company (ESCO) in New York State because of a pattern of marketing abuse and numerous customer complaints.

In 2012, Commission staff received 186 initial customer complaints against Liberty Power, compared to 26 in 2011. The majority of customer complaints involved misleading marketing practices, sales representatives misrepresenting their identity, and enrolling customers without proper authorization, a practice known as slamming. All of these complaints were eventually resolved. Despite committing to several corrective actions, Liberty Power's representatives appeared to continue to violate the Commission's Uniform Business Practices (UBP).

The Commission adopted the UBP in 1999 and added marketing standards to the UBP in 2008. The UBP's are incorporated into each utility company's tariff. ESCOs are required to comply with the UBP to maintain their eligibility to sell gas and electric service in New York. The UBP includes the basis on which the Commission can revoke an ESCO's eligibility to serve customers in New York.

In 2006, Liberty Power was deemed eligible to serve as an ESCO, and began marketing ESCO services in New York in 2007. It serves customers in the service territories of Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., New York State Electric & Gas Corporation, Niagara Mohawk Power

> *While we facilitate retail competition in the energy business, we will not tolerate continuing violations of the marketing standards that we have established to ensure consumers are treated fairly and reasonably by energy service companies.* - PSC Chairman Garry Brown

Corporation, Orange & Rockland Utilities, Inc., and Rochester Gas & Electric Corporation. The majority of customers are in Con Edison's territory. The company was directed to explain why it should not be precluded from enrolling new customers until the Commission orders otherwise, and why its eligibility to act as an ESCO in New York State should not be revoked or, alternatively, why the Commission shouldn't impose other consequences. (Case 13-E-0062)

IV. ENERGY EFFICIENCY INITIATIVES

More Flexibility for NYC CHP

The Public Service Commission in October 2012 made it easier for Consolidated Edison Company of New York, Inc.'s customers to install combined heat and power (CHP) generating facilities on their premises and to offset the output of that generation against the customers' building usage in a multiple building or campus-style setting.

As a result of the Commission's decision, the economic burden on customers of CHP interconnections were reduced, thereby improving the overall economics of such projects. The Commission's decision also ensured that Con Edison's standby delivery rates remain cost based and do not provide an unwarranted incentive to such customers under the new provisions.

The Commission's decision allows customers that have multiple buildings or campus-style settings to connect to Con Edison's grid. Customers benefit from connection of their on-site generation directly to the high-tension side of the company's electric distribution facilities because it enables them to reduce the electrical infrastructure investment needed within their buildings. Eligible campus-style generating facilities will be between 2 megawatts and 20 megawatts.

CHP is an efficient, clean, and reliable approach to generating power and thermal energy from a single fuel source. By installing a CHP system designed to meet the thermal and electrical base loads of a facility, CHP can greatly increase the facility's operational efficiency and decrease energy costs. CHP is a fast-growing technology that is becoming more widely accepted in commercial and industrial operations. (Case 11-E-0299)

> *Interest in clean, customer-sited generation continues to grow. Benefits to the owners of the onsite generation include lower overall energy costs and more energy efficient systems.* - PSC Chairman Garry Brown

CHP Program Gets $100 Million

The Commission in December 2012 approved the New York State Energy Research and Development Authority (NYSERDA)'s request to modify various Energy Efficiency Portfolio

Standard (EEPS) program budgets and targets and to reallocate more than $100 million in funds for a combined heat and power (CHP) program, a workforce development initiative, and a natural gas program for low-income customers.

The Commission's decision allowed NYSERDA to reallocate certain EEPS funds for three on-going initiatives as follows:

- $58.6 million to the CHP program for installations to provide efficient, reliable, clean power and peak load reduction within load centers;
- $28.1 million to continue and expand workforce development initiatives focused on technical training and the development of on-the-job practical skills related to the installation, operation and maintenance of energy efficient equipment; and
- $13.8 million to the low-income EmPower natural gas program that provides cost-effective gas and electric reduction and home performance measures at no cost to low-income households. (Case 07-M-0548 or 10-M-0457)

The pursuit of energy efficiency is a critical component of any plan to ensure that the State's energy needs can be met reliably at a reasonable cost. Having programs available to encourage the installation of state-of-the-art energy efficiency equipment, help train the energy workforce of the future, and assist low-income consumers are all essential parts of this effort. - PSC Chairman Garry Brown

Low-Income Energy Efficiency Program Gets Funding

The Commission in February 2013 authorized National Fuel Gas Corporation (National Fuel) to reallocate $1.1 million annually to its Low-Income Usage Reduction Program (LIURP) as a way to increase participation.

The LIURP, administered by the New York State Energy Research and Development Authority (NYSERDA) through its Empower Program, provides free weatherization assistance (e.g., energy efficiency measures including insulation, heating system inspections and repairs, caulking, air sealing, etc.) to eligible low-income utility customers in National Fuel's service territory. (Case 07-M-0548)

V. RENEWABLE ENERGY INITIATIVES

NY-Sun Initiative Expands Solar Development

The Public Service Commission in April 2012, as part of Governor Andrew M. Cuomo's NY-Sun Initiative, doubled funding for customer-sited solar electric systems, known as solar photovoltaic (PV) energy systems, to $432 million over four years, and to quadruple that amount in 2013.

The expanded solar program increased financial incentives for large, commercial-sized PV projects and expanded incentive programs for small-to medium residential and commercial systems. The NY-Sun Initiative was first outlined by the Governor in his 2012 State of the State Address. The NY-Sun Initiative brings together and expands existing programs administered by the New York State Energy Research and Development Authority (NYSERDA), Long Island Power Authority (LIPA), and the New York Power Authority (NYPA), to ensure a coordinated and well-funded solar energy expansion plan.

> *NY-Sun is a the major driving force in New York for the continued growth and success of our important solar electric industry and NY-Sun encourages residential and business customers to install non-polluting solar systems, and creates significant job opportunities for the solar industry.*
> - PSC Chairman Garry Brown

Solar Power and High-Technology Get Financial Boost

In September 2012, the Commission approved the New York State Energy Research and Development Authority's request to reallocate more than $25 million in uncommitted System Benefits Charge (SBC) funds for new Technology and Market Development (T&MD) portfolio initiatives, including a new solar photovoltaic program, an initiative to develop technologically advanced energy storage systems, and an initiative to support high-performance buildings.

The Commission's decision allowed NYSERDA to utilize uncommitted SBC funds for three new initiatives:

- $10 million to develop and implement programs to reduce the balance-of-system costs for solar photovoltaic (PV) installations and to support priority PV technology development;
- $10 million to support research on an energy storage/smart grid hub, including efforts to secure U. S. Department of Energy (DOE) funding for the establishment of an energy storage research hub in New York; and
- $5.76 million to expand the Advanced Buildings Program within the T&MD portfolio, including $3 million for the Advanced Buildings Consortium and $2.76 million for a deep energy savings initiative in commercial buildings.

As part of the NY-Sun initiative, the Commission made $10 million available to develop and implement programs to reduce the "balance of system" (BOS) costs of solar PV installations. BOS costs constitute approximately half the total cost of an installation and include labor, design, permitting and interconnection, and the cost of the inverter.

Energy storage and smart grid advancements support Governor Cuomo's ongoing Energy Highway initiative designed to upgrade and modernize New York State's electric power system. To help support the Energy Highway initiative, the Commission made $10 million available to support research on an energy storage/smart grid hub. Ultimately, the hub will serve as a feeder to the Renewable Portfolio Standard or future renewable initiatives.

We must continue to find ways both to reduce demand on our electric and natural gas grids while enhancing the ability of the infrastructure to handle the loads that remain in an optimal fashion. The innovative programs funded address those twin imperatives head on. - PSC Chairman Brown

Finally, $5.76 million in funding was directed toward improving the energy efficiency of the state's commercial buildings, including $3 million for targeted and high priority technology development and demonstration projects and to help accelerate the introduction of emerging technology into New York markets, ultimately leading to achievement of higher energy and environmental performance in the New York building stock. The remainder was directed toward demonstrating the feasibility of efforts to achieve up to 40 percent or more energy efficiency savings in existing buildings and 40 percent or more energy savings in new construction. (Case 10-M-0457)

Central Hudson Customers Install More Solar

The Commission in October 2012 tripled the net metering limit for solar and other net-metered technologies in Central Hudson Gas & Electric Corporation's (Central Hudson) service territory. The decision helped promote and support the development of residential and business renewable energy installations in Central Hudson's service territory.

Central Hudson's net metering limitation increased to 36 megawatts (MW), up from 12 MW, making available sufficient net metering in Central Hudson's service territory to accommodate the solar photovoltaic (PV) capacity installation goal of the NY-Sun Initiative and anticipated demand for net metering of other eligible technologies (farm waste, micro-hydroelectric, micro-combined heat and power, and fuel cells).

Allowing customers the opportunity to generate their own renewable energy is an important tool in promoting State energy policy. Enabling and encouraging more customers to be able to install solar cells and other net-metered technologies helps New York meet its renewable energy goals, including Governor Cuomo's ambitious NY-Sun Initiative, driving growth in the clean energy economy and making solar technology more affordable for all New Yorkers.
PSC Chairman Garry Brown

Net metering is a process that involves the installation of small-scale renewable energy systems in homes and businesses providing customers with the ability to sell power back to the utility. (Case 12-E-0343)

Funding Cap Increased to $1 Million for On-Site Wind

The Commission in February 2013 authorized the New York State Energy Research and Development Authority (NYSERDA) to increase the maximum incentive amount from $400,000 up to $1 million per installation for the on-site wind program to help boost program participation.

In 2010, the Commission established budgets and targets through 2015 for the customer-sited tier of the Renewable Portfolio Standard (RPS) program to encourage certain self-generation 'behind the meter' technologies in the State. As part of the RPS, a program was established for "behind-the-meter" generators to allow customers to participate directly in the promotion of certain clean energy technologies.

> *Since the inception of New York's renewable energy program, the customer-sited tier has been an important component in encouraging customers to install their own 'behind-the-meter' renewable energy production systems. Increasing the funding cap for on-site wind projects reflects the need to respond to market conditions in order to advance additional renewable energy projects.* -PSC Chairman Garry Brown

In 2011, the Commission modified the equipment size cap for on-site wind installations from 600 to 2 MW to be consistent with net-metering laws and to boost on-site wind program participation. The increase in the funding cap is provided to respond to market conditions and assist with the development and construction of these larger installations. (Case 03-E-0188)

Distributed Generation Gains Further Support

The Commission in March 2013 made it easier to install distributed generation equipment in homes and businesses, including those that use renewable energy, to generate electricity. The Commission ordered an expansion of an expedited review process for interconnection of distributed generation to include inverter-based systems that can feed into a commercial electrical grid with a capacity up to 300 kilowatt (kW).

The Commission's action, in addition to promoting renewable energy development, supported recommendations made by Governor Andrew M. Cuomo's NYS2100Commission in terms of streamlining efforts to encourage distributed generation. Distributed generation, also called on-site generation, is the generation of electricity from small energy sources. Increasing the amount of distributed generation will help strengthen the resiliency of the electric grid.

The Commission also adopted other modifications to its Standardized

Interconnection Requirements (SIR) for distributed generation units operating in parallel with the electric utility distribution systems, including a mechanism to remove inactive projects from a utility's interconnection queue. SIR refers to the rules related to the new interconnection of new distributed generation units with a nameplate capacity of 2 MW or less connected with the utility's distribution system.

Easing interconnection with existing utility networks encourages the development of distributed generation systems such as micro-hydroelectric systems. The Commissions' action promotes energy conservation, efficiency, and consumer demand response, while improving the resiliency and stability of energy, electricity, and fuel supply systems. An inverter-based system converts the direct current (DC) output of a distributed generation system into a utility-frequency alternating current (AC). (Cases 12-E-0393, 12-E-0394, 12-E-0395, 12-E-0396, 12-E-0397, and 12-E-0398)

The Commission continues to encouraging the development of renewable energy and distributed generation projects in New York. The actions we took foster more participation by interested customer-generators and additional investment in such technologies. -PSC Chairman Garry Brown

VI. JUST AND REASONABLE RATES

American Water Works Acquires Aqua NY

The Public Service Commission in April 2012 approved a Joint Proposal for the transfer of all the capital stock of Aqua New York, Inc. (Aqua NY), a wholly owned subsidiary of Aqua Utilities, Inc., (Aqua Utilities) to American Water Works Company, Inc. (American Water).

American Water is the parent company of Long Island American Water (LIAW), which operates in Nassau County. Aqua NY has two subsidiaries providing service in Nassau County—New York Water Service Corp. (NYWS) and Aquarion Water Company of Sea Cliff, Inc. (Sea Cliff)—and itself serves five upstate water districts in Westchester, Ulster, and Washington Counties.

The American Water acquisition entailed a number of benefits for customers, including:

- A two-year moratorium on rate increases for NYWS, Sea Cliff, and all five of the Aqua NY's upstate water district customers;
- Reconciliation mechanism providing incentives to minimize increases in or reduce property taxes, and to capture all or the lion's share of reductions for ratepayers;
- Earnings sharing mechanism that would capture half of any significant earnings flowing from currently unquantifiable consolidation synergies and savings; and

- An additional $4 million in required capital expenditures for NYWS in 2012 (for a total of $4.9 million), with deferral for ratepayers of any under-spending amount.

American Water is the largest investor-owned water and wastewater utility company in the United States. Among other things, American Water already owns LIAW, which provides water service to about 75,000 customers in Nassau County. Aqua NY, by itself and through its utility subsidiaries, serves more than 50,000 customers in Nassau, Ulster, Washington, and Westchester Counties.

> *Commission approval of American Water's acquisition of Aqua NY not only entailed no rate increase to Long Island ratepayers, but ensured rates to its other customers would be locked in at current levels for an additional two years beyond what otherwise could prevail.* - PSC Chairman Garry Brown

Aqua NY has two wholly-owned subsidiaries currently providing water service in Nassau County: New York Water Service Corporation, serving about 45,000 customers in the Towns of Hempstead and Oyster Bay; and Aquarion Water Company of Sea Cliff, serving about 4,300 customers in the Town of Oyster Bay.

Aqua NY itself provides water service directly to five separate rate districts outside Long Island: Cambridge, with about 475 customers in the Village of Cambridge, Towns of Jackson and White Creek, Washington County; Kingsvale with about 220 customers in the Town of Ulster, Ulster county; Dykeer, with about 120 customers in the Hamlet of Lincolndale, Town of Somers, Westchester County; Waccabuc, with about 80 customers in the Town of Lewisboro, Westchester County; and Wild Oaks, with about 190 customers in several developments also located in Westchester County. (Case 11-W-0472)

Corning Gas Delivery Rates Increased

The Commission in April 2012 approved a three-year rate plan for Corning Natural Gas Corporation's (Corning) natural gas service. The new rate plan took effect May 1, 2012 and runs through April 30, 2015.

The biggest drivers of the rate increase were the company's investment in infrastructure, improvements for system safety and reliability, and increases in operation and maintenance expense, including pension and other post-employment benefits, depreciation expense and the introduction or enhancement of customer assistance programs.

Over the three years of the rate plan, Corning's delivery service rates generated an overall annual revenue increase of 3.96 percent in rate year one, and will generate 3.77 percent in rate year two and 1.31 percent in rate year three. For a typical residential customer, the average monthly bill increased by $4.46 in rate year one, and will increase $3.85 in rate year two, and $1.34 in rate year three.

The rate plan provided a customer benefit that included an additional revenue sharing mechanism that provides credits to customers' bills derived from the transportation of local gas production. It also provided for a 9.5 percent rate of return on equity for the company, and included an earnings sharing mechanism.

To help ensure Corning pursues the replacement of infrastructure that will improve safety and reliability, the rate plan established targets and associated negative incentives for capital replacement projects — Bath reliability project, a bare steel main replacement program, and a bare steel service replacement program. Corning will incur negative incentives if it fails to meet these targets for replacements and certain safety measures.

The new rate plan was in the public interest and provided for substantive provisions related to capital replacement projects, enhanced customer assistance programs and consolidation of rate schedules for the company's Corning, Hammondsport and Bath service territories. - PSC Chairman Garry

Additionally, the rate plan required Corning to file an enhanced outreach and education program plan, provide a $5 monthly bill credit for customers who have received a Home Energy Assistance Program (HEAP) grant within the preceding 12-months, and a new customer accounting system allowing customers to begin budget billing during winter months when their energy bills are highest, and a new customer service performance incentive mechanism to help ensure and maintain the quality of customer service. (Cases 11-G-0280, 08-G-1137, 09-G-0790)

O&R Rates Increased to Provide Safe and Adequate Service

The Public Service Commission adopted in June 2012 a three-year rate plan for Orange and Rockland Utilities, Inc.'s (O&R) electric delivery service, effective July 1, 2012 through June 30, 2015.

The three-year rate plan authorized O&R to increase base electric delivery revenues by approximately $15.2 million for each of the three rate years on a levelized basis, or an average annual increase of 5.8 percent. The company contended that the increased revenue requirement was largely driven by capital additions, increases in the return on equity, property taxes, labor costs, and costs associated with storms in late summer and early fall of 2011.

The base delivery rate changes approved increased the monthly customer charge for residential customers in rate year one from $15.60 to $18.00 on July 1, 2012, and will increase to $19 starting July 1, 2013, and $20 starting in July 1, 2014.

The rate plan provided for an average 9.5 percent return on equity which was substantially lower than the 11.25 percent requested by the company, but consistent with investor expectations given recent Commission decisions. Additionally, under an earnings sharing mechanism, a portion of O&R's earnings will be credited to ratepayers when the company's earned return on equity exceeds defined levels per rate year.

Under the rate plan, on July 1, 2012 low-income heating customers received monthly discounts of $17.40, an increase of $2.40 from previous levels. In addition, at the beginning of the rate plan, monthly discounts of $7 for low-income non-heating customers will increase by $1 on July 1, 2013 and July 1, 2014. The existing waiver of fees for reconnection of service and reporting requirements continue for the term of the rate plan. (Case 11-E-0408)

Rockville Centre Rates Increased for First Time in Nearly 10 Years

The Commission in July 2012 adopted a Joint Proposal that provided an 11.1 percent increase in electric rates for the Village of Rockville Centre, a Nassau County municipal electric utility, with an agreement by the company not to file another rate increase within the next 12 months.

The Village originally filed with the Commission revised electric rates to recover approximately $3.4 million in additional annual revenues, which would have constituted an overall 16.87 percent increase in rates. The Village indicated the need for the increase was to reflect inflation and increased costs of retirement, medical, labor, tax equivalence and debt service which were partially offset by increases in sales subsequent to the Commission's 2004 Rate Order. The municipal electric utility has about 10,000 customers. The Village last filed for a rate increase in 2003. (Case 11-E-0590)

National Grid Electric and Gas Rates Drop in 2013

The Commission in March 2013 adopted a Joint Proposal for a three-year rate plan for National Grid electric and natural gas service. The new rate plan is in effect from April 1, 2013 through March 31, 2016.

For electricity customers of National Grid, total electric delivery charges decreased by 8.7 percent in the first year, and will increase 2.8 percent in the second and third years. Meanwhile, base electric delivery revenues for the company increased $43.39 million in the first year and will increase $51.36 million in the second year and $28.34 million in the third year.

For natural gas customers, total gas delivery charges decreased 6.7 percent in the first year, and will increase 4.8 percent in the second year and 4.9 percent in the third year. Base gas revenues decreased by $3.29 million in the first year, and then will increase by $5.85 million in the second year and $6.26 million in the third year.

Based on the new revenue requirements, a typical monthly residential electric bill for 600 kilowatt hours of electricity usage decreased on average by 6.6 percent in the first year, and will increase an average of 3.3 percent and 2.1 percent in years two and three, respectively. Due to the sharp decrease in the first year, electric delivery bills through 2016 will remain lower than they were in 2013.

The decrease in the first year resulted from expiration of a $190 million surcharge and return of deferred customer credits. The surcharge was allowed as part of previous rate plans to recover various costs associated with the company's electric business.

Based on the new revenue requirements, a typical monthly residential gas bill for 83 therms of gas usage decreased on average by 4 percent in the first year, and will increase an average of 3.9 percent and 2.9 percent in years two and three respectively. The decrease in the first year was possible due to the use of credits owed to customers.

Anticipated impacts on the overall bills of residential customers, including supply charges as well as the regulated delivery rate, are reductions in the first year of 6.6 percent for electricity and 4 percent for gas. Following these reductions, overall residential bills are projected to increase by 3.3 percent in the second year and 2.1 percent in the third year for electricity, and by 3.9 percent in the second year and 2.9 percent in third year for gas.

The base delivery rate changes approved increased the monthly customer charge for residential electric customers from $16.21 to $17, with a $0.40 per month credit available for customers choosing paperless billing. The monthly customer charge for residential gas customers increased from $17.20 to $20.35.

The rate plan provided for an average 9.3 percent return on equity. Under an earnings-sharing mechanism, a portion of National Grid's earning will be credited to ratepayers when the company's earned return on equity exceeds defined levels per rate year.

Under the rate plan, existing rate discounts for certain economic development programs (i.e., Empire Zone and Excelsior Jobs) were continued, and the electric economic development grant program was funded at $11 million a year, an approximately $2 million increase, and a comparable gas program to be created was funded at $1 million a year.

For customer and outreach programs, low income monthly bill discounts for gas customers increased from $7.50 to $10 in the first year and will rise to $11 in the third year; Affordability Program participants receive arrears forgiveness of $30 a month up to 24 months; HEAP customers who have had their service disconnected receive a one-time $46 reconnection fee discount; and outreach and education program funding was increased from $0.9 million to $3 million annually to improve communications related to safety, storm readiness, benefits of natural gas, and general customer education. Additionally, a missed appointment customer credit of $30 will be provided when the company fails to keep a customer requested appointment.

New performance standards were created for gas pipeline safety and electric inspection and maintenance, and replacement of aging gas pipes will be accelerated. Finally, National Grid will develop a web-based bill calculator to enable Energy Services Company (ESCO) customers to compare actual billing to what they would have been billed as a non-ESCO customer. (Cases 12-E-0201 and 12-G-0202)

VII. ENSURING SAFE AND RELIABLE SERVICE

Electricity Supply Adequate for Summer

At its May 2012 session, the Commission received an update from the staff of the Department of Public Service outlining electric utilities' summer preparedness in terms of addressing transmission and distribution reliability needs, and price volatility for residential and small commercial and industrial customers who take electric supply from the utilities.

Staff reported that a review of the supply of electric generation capacity and transmission system condition in the state indicated that the system was ready to provide adequate and reliable service for the summer. Meanwhile, the New York Independent System Operator (NYISO) reported that there were adequate generation and demand-side resources to provide necessary supplies of energy and reserves to meet the summer load projections. Transmission owners also reported that they were able to meet peak projected load in all areas with all circuits in service.

Staff noted that given the dense population and unique characteristics of Consolidated Edison of New York, Inc's (Con Edison) service territory, the company continually has the highest loads in its area during the summer months. To help redress its summer load situation, Con Edison continued to offer its load-relief programs — Direct Load Control (DLC) Program and the Rider U-Direct Load Relief Program — available for deployment during high-load system conditions. The enrollment levels in 2012 were greater than in 2011 due to program changes intended to increase demand response benefits for both customers and the company.

Additionally, Con Edison continued to offer its peak-shaving program known as — Rider S-Commercial System Relief Program, whereby large commercial or industrial program participants receive financial incentives to reduce load during events which are called by the company when the day-ahead forecasted load level is at least 96 percent of the forecasted summer system-wide peak.

The state's utilities are ready and able to provide adequate and reliable service for the summer. In addition, newly introduced demand-reduction programs in the New York City area helped ensure that the metro area — the region with the highest electricity demand in the state during the summer — has a significant excess capacity margin. - PSC Chairman Garry Brown

Staff continued to track and monitor the utilities efforts in preparation for the upcoming summer period, as well as any utility contingency plans.

Staff also reported to the Commission that the utilities took steps to reduce price volatility of their estimated May 2012 through April 2013 commodity needs through fixed and indexed hedges. (Case 12-E-0083)

Utilities Urged To Improve Storm Performance

Department of Public Service staff reported to the Commission in June 2012 results of a statewide examination of the state's utilities preparation for and response to the series of devastating storms that wracked New York in the summer and fall of 2011. Staff reported that while many improvements from prior storms enhanced utility performance, all the State's utilities needed to improve emergency preparation, restoration performance, and communication with customers, public officials, and the media during severe weather conditions that lead to downed power lines and widespread outages. Over 100 recommendations were put forth by staff regarding ways to improve communications, restore power more quickly, and reduce the total number of outages that might occur.

In 2011, in response to the series of unprecedented, nearly back-to-back storms Hurricane Irene and Tropical Storm Lee, Governor Andrew M. Cuomo ordered a thorough and complete review of the storm-restoration activities of all of the State's utilities, electric, natural gas, and telecommunications.

At the request of the Governor, a separate and independent review was conducted of the Long Island Power Authority (LIPA)'s response to

Hurricane Irene. LIPA customers were particularly hard hit by Hurricane Irene, and customer complaints about the utility's performance during and after the storm prompted the Governor to take action.

In total, 1.1 million electric customers lost service due to Hurricane Irene and some 68,000 electric customers lost service due to Tropical Storm Lee. Furthermore, more than 900,000 telecommunications customers were without service, mostly due to wide-scale power outages.

In addition to reviews of utility performance during Irene and Lee, the October 29, 2011 Nor'easter, which left more than 400,000 customers without electricity, was also examined. In that storm, four utilities were affected. Due to the significant amount of snowfall and the severe devastation to leaf-laden trees, full restoration took between six to eight days.

Hurricane Irene, which hit on August 28, 2011, caused such severe damage from flash flooding and high winds that resulted in the Governor declaring a state of disaster in 38 of New York's 62 counties. Numerous utilities suffered significant infrastructure damage from flash flooding and winds that sent uprooted trees and branches crashing onto power lines. LIPA had more than 523,000 customer outages due to Irene, more than any other utility.

Meanwhile, Tropical Storm Lee, which hit on September 4, 2011, delivered rain onto already saturated ground and swollen rivers, causing unprecedented flooding in the Southern Tier and the Mohawk Valley region. Throughout all the storms of 2011, utility crews and employee efforts were substantial and sustained.

> *The intense storms that wracked New York in 2011 created great hardship for hundreds of thousands of families and businesses in New York, and caused extraordinary damage to the state's utility infrastructure. Staff's examination of the utilities' performance, including the adequacy of disaster planning and efforts to restore power and communicate with customers, will help to reduce the impact of such storms in the future.*
> - PSC Chairman Garry Brown

In addition to the energy companies, recommendations were put forth for telecommunications companies primarily designed to improve the reporting of outages and events affecting telecommunications networks, better coordination between providers for priority restoration of facilities, and to explore means to improve communications and coordination between telecommunications providers and electric utilities during restoration. (Cases 11-M-0481, 12-E-0283 and 11-M-0595)

Historic Storms Impact Electric Reliability

The Public Service Commission in June 2012 received a report from staff of the Department of Public Service assessing electric service reliability by electric utilities in New York

State. While overall system reliability was only slightly worse in 2011, the spillover effect following the unprecedented number of severe storms last year may have impacted the utilities' overall performance.

Statewide interruption frequency for 2011, excluding major storms, was only slightly worse than 2010 as well as the five-year average.

However, five storms in 2011 caused significant hours of interruption of customer service, with Hurricane Irene, Tropical Storm Lee, and an unseasonal October snowstorm causing the most interruptions. While these storms were excluded from a utility's reliability performance because they are circumstances over which the utilities have limited control, there might be some spillover effect in the periods following the storms that would impact the overall performances.

Some of this variance was also attributed to National Grid's change in its data collection and reporting system. Central Hudson Gas and Electric Corporation (Central Hudson) and Orange and Rockland Utilities, Inc. (Orange and Rockland) improved when compared with 2010.

While the reliability performances of the remaining three — Consolidated Edison Company of New York, Inc. (Con Edison), New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation — major electric companies fell slightly, they generally performed satisfactorily.

Similar to frequency, the statewide duration performance for 2011, excluding major storms, was slightly worse than the previous year, but generally consistent with the history of the past four years. National Grid, Central Hudson and Orange and Rockland performance improved over 2010.

Reliability performance mechanisms have been in effect for many of the utilities for years. These performance measurement mechanisms link company earnings to company performance on specific measures of system reliability. These measurement metrics are designed to promote performance-based incentive strategies for delivery of reliable electric service by electric utilities in the State. - PSC Chairman Garry Brown

All investor-owned electric utilities have reliability performance mechanisms (RPMs) in place as part of their rate plans. The reliability performance mechanisms impose negative revenue adjustments on the utilities that fail to meet electric reliability targets. With respect to individual utility performance in 2011, Con Edison failed to meet its RPM metric for network (underground distribution system) interruptions and duration as well as for radial (overhead distribution system) duration. (Case 12-E-0160)

LIPA Transmission Line Expanded

The Commission in July 2012 granted a Certificate of Environmental Compatibility and Public Need by adopting the terms and conditions of a Joint Proposal allowing the Long Island Power Authority (LIPA) to increase the design capacity of the existing 10.6 mile Wildwood to Riverhead electric transmission line from 69 kV to 138 kV.

The transmission line is located in a right-of-way that runs between LIPA's Wildwood and Riverhead Substations. The line is approximately 10.6 miles and utilizes approximately 170 structural poles. The width of the right-of-way is approximately 100 feet. LIPA proposed to upgrade the transmission line from 69 kV by installing insulators capable of supporting 138 kV transmission using existing conductors and poles. A short piece (approximately 300 feet) of underground 138 kV cable will be installed near the Wildwood Substation to transition the overhead line into the Wildwood Substation. LIPA stated that no additional property rights would need to be acquired for the project.

> *This transmission line expansion will increase LIPA's electric transmission capacity to the South and North Forks of Long Island, to increase reliability and to meet the forecasted increase in demand in those areas. Because the facility will use the existing right of way, no permanent impact will occur on any of the existing land uses along the route. Any adverse impacts are expected to be temporary in nature, related to construction of the project.* - PSC Chairman Garry Brown

The Joint Proposal described the basis for a finding of need. Based on forecasted load growth, the project is needed prior to the summer of 2013. Demand on the East End increased over the six-year period between 2000 and 2006 by an annual average of 5.2 percent. LIPA forecasted demand to increase on the South Fork at an annual average rate of about 3.3 percent through 2025. The project is a significant component of LIPA's plans to reinforce the existing transmission capacity of the South and North Forks of Long Island. (Case 11-T-0116)

NYSEG and RG&E to Improve Consumer Safeguards

The Commission in July 2012 received a report from Department of Public Service staff that both New York State Electric & Gas Corporation (NYSEG) and Rochester Gas & Electric (RG&E) failed to adequately protect confidential customer information from unauthorized access by outside parties.

In January 2012, NYSEG advised the Department that unauthorized parties had obtained access to confidential information of both NYSEG and RG&E customers, including Social Security Numbers, dates of birth, and in some cases, financial institution account information.

The Department reviewed the actions taken by NYSEG/RG&E to inform and assist their customers, including efforts to provide accurate information about the potential impact of this security breach and to provide tools to assist customers in identifying instances in which their confidential information was misused. The Department also began an investigation to identify deficiencies in NYSEG/RG&E systems and procedures regarding the protection of confidential customer information, including those that may have contributed to the incident, and to develop recommendations for corrective action.

According to the report's findings, there was no evidence that any confidential customer information was misused. After the companies became aware of the security breach, they generally took reasonable actions to inform their customers of the potential impact of the breach. However, several deficiencies in the companies' systems and practices contributed to the security breach. Since then, the companies' have taken sufficient steps to prevent a recurrence of a similar security breach and the companies are planning a major revamp of the information systems and data protection security.

Based on the investigation's findings, the companies were required to further refine policies, processes and procedures regarding confidentiality safeguards, and to report on progress in implementing the recommendations, including its plan for handling the costs incurred in responding to this breach and how such plan complies with the companies' respective rate plans.

The Commission also raised concerns about the issue of costs that both the companies incur in responding to this security breach. The Commission required the companies to segregate and report all of the costs associated with rectifying the security breach, including the customer care costs identified above as well as any incremental investigation and remediation costs.

To share lessons learned with all of the larger utilities, the Commission required further efforts to ensure that all large utilities remain focused on these issues and have procedures to protect personally identifiable customer information. The Commission directed large utilities to provide the status of their implementation of best practices for the protection of personally identifiable information. (Case 12-M-0282)

> *Our investigation found that NYSEG and RG&E failed to meet industry standards and best practices to protect personally identifiable information of customers. As a result, we directed the companies to immediately take action to address the vulnerabilities on its computer billing and records systems used to take and maintain confidential customer information.*-PSC Chairman Garry Brown

Con Edison Sets Aside $5M Ratepayer Credit

In September 2012, the Public Service Commission directed Consolidated Edison Company of New York, Inc. (Con Edison) to establish a $5 million credit for ratepayers from shareholder funds as a result of the company's failure to meet certain reliability goals under the terms of its rate plan.

Con Edison operates under a Reliability Performance Mechanism (RPM) which requires negative revenue adjustments if it does not meet certain performance thresholds. Con Edison is subject to up to $112 million annually in negative revenue adjustments if it fails to meet its RPM standards, which are divided into five performance areas: system-wide threshold standards, major outages, remote monitoring systems, restoration, and program standards for routine work activities. The current mechanism was adopted as part of Con Edison's 2010 rate plan.

In April 2012, Con Edison filed its annual report for 2011 on the company's performance under the electric service RPM. The company's report indicated that it met the performance requirements in all five areas when taking into consideration exclusions for three of its RPM metrics – Network Outages per 1,000 Customers metric and Average Network Outage Duration metric due to Hurricane Irene, and the Radial Duration metric due to outages beyond its control.

Commission staff agreed that the outages related to Hurricane Irene be excluded, but did not agree to exclude the Radial Duration metric because the company did not demonstrate that its failure was due to outages beyond its control. As a result, the Commission required Con Edison to establish a $5 million credit for ratepayers from shareholder funds. (Case 09-E-0428)

Natural Gas Utilities Ready for Winter

Based on an annual review of local utilities' winter preparedness, Department of Public Service staff reported to the Commission in October 2012 that utilities providing natural gas service in the State have adequate supplies, delivery capacity, and storage inventory to satisfy customer demand under severe winter conditions. In addition to having necessary supplies of natural gas, commodity prices were expected to be lower during the heating season.

As part of the winter readiness review, staff reported on the arrangements utilities made to obtain adequate commodity supply to meet expected customer demands under severe winter conditions. Additionally, staff reviewed the utilities' compliance with Commission policy regarding gas purchasing practices.

The Commission's assessment of natural gas supplies and prices is based on staff's monitoring of utilities' actions to prepare for the winter. Throughout the winter season, staff monitored issues that could potentially affect the utilities' operations and their customers, such as weather and heating degree day data; storage inventory management; interstate pipeline operational issues; operational flow orders; utility operation issues; gas price levels and fluctuations; and customer interruptions.

> *Ensuring a reliable gas supply to New York's ratepayers continues to be of paramount concern to the Commission. The utilities serving New York have adequate supply and inventory to satisfy expected demand for the winter.*
> PSC Chairman Garry Brown

As of October 1, 2012, the price of flowing gas was projected by the New York Mercantile Exchange (NYMEX) to be higher than the previous year. However, when combined with a lower cost of gas in storage and a lower price of hedged gas supply, 2012's total commodity cost on average was expected to be 12 percent lower than the previous year. (Case 12-G-0206)

Repowering of Dunkirk and Cayuga Plants Analyzed

The Public Service Commission in January 2013 instituted a proceeding to examine repowering alternatives to utility power plant reinforcements and directed National Grid and New York State Electric and Gas Corporation (NYSEG) to work with generation owners to evaluate repowering of two power plants in upstate New York.

The Commission directed National Grid to evaluate repowering as an alternative outcome for the Dunkirk generating station and NYSEG to do the same for the Cayuga generating stations. The closing of the power plants could cause reliability concerns. The companies were directed to examine the relative costs and benefits of repowering the plants at their existing sites compared to alternative transmission upgrades over the long term. The benefits being evaluated include the reliability, environmental, and customer impacts associated with the repowering and transmission solutions.

The coal-fired Dunkirk generating station located in Chautauqua County, New York, consists of four units with combined nameplate rating of over 635 megawatts (MW). Units 1 and 2 are each rated at 100 MW and Units 3 and 4 are each rated 217.6 MW. The Cayuga facility located in Lansing, New York, consists of two coal-fired units with a combined capacity of over 312 MW. Unit 1 has a net capacity rating of 154 MW and Unit 2 of 158.7 MW.

As part of this evaluation, the companies will file with Department of Public Service staff projected costs of the transmission alternatives that they propose to evaluate, solicit bids from the current owners of the Dunkirk and Cayuga plants for the level of support required to finance repowering of their respective facilities, and file reports analyzing repowering alternatives in terms of reliability and other impacts and make recommendations to the Commission. (Case 12-E-0577)

Evaluating repowering is consistent with the New York Energy Highway Task Force Blueprint which citied the potential benefits of repowering and recommends that electric utilities be required to analyze repowering as an alternative to transmission system upgrades when a facility needed for reliability proposes to retire. - PSC Chairman Garry Brown

Storm Equipment Stockpile Considered

In February 2013, the Public Service Commission commenced a proceeding to advance recommendations made by Governor Andrew M. Cuomo's NYS2100 Commission to establish a stockpile of critically needed equipment and supplies for the mutual use of the State's largest electric and gas utilities during future natural disasters.

In his 2013 State of the State Address, Governor Andrew M. Cuomo described the equipment and material dilemma and called for the development of a program to stockpile long-term capital assets and critical equipment and to make the stockpiled assets and equipment available for the mutual use of all New York utilities. Such a stockpile could be accessed during the recovery from major storms and emergency events to help expedite the restoration process. The recommendation was also part of the Governor's NYS2100 Commission report.

The Commission's action will assist in and accelerate the sharing of key pieces of equipment during major emergency events. It will examine the current equipment inventory and materials handling process of the major utilities in New York and will examine the opportunities available to implement through joint utility action more efficient storage, delivery, and distribution procedures.

The proceeding will examine current mutual aid equipment and materials practices of all major utilities and develop a process to allow for a regional or statewide stockpile of capital assets and critical equipment and for the subsequent sharing of these assets.

Superstorm Sandy caused unprecedented damage to the energy system infrastructure of New York State. Governor Cuomo was rightfully concerned that the need for critical assets and equipment will only become greater as extreme weather events become both more frequent and severe than experienced in the past. We took action now to prepare for what might lie ahead. - PSC Chairman Garry Brown

As a first step, the Commission directed the six major investor-owned electric utilities, along with the three major investor-owned natural gas utilities, to file current equipment inventory and material handling procedures and to submit an inventory of equipment used during the recovery from

Sandy and identify the timing, extent and nature of any shortages that occurred. (Case 13-M-0047)

Cricket Valley Natural Gas-Fired Power Plant Approved

The Commission in February 2013 approved a proposed 1,000 megawatt (MW) electric generating facility in Dutchess County, which will provide more cost-effective electricity with lower emissions than many existing plants and improve power reliability throughout the downstate region. The Commission granted a Certificate of Public Convenience and Necessity to Cricket Valley Energy Center, LLC for the construction of a combined cycle, natural gas-powered 1,000 MW electric generating facility on an inactive industrial site located in the town of Dover.

The certificate also covers the facility's proposal to build two 700 foot long, on-site, overhead 345 kilovolt (kV) lines. Those lines will interconnect the facility with the existing Consolidated Edison Company of New York, Inc.'s 345 kV electrical transmission line located adjacent to the northern property line of the project.

According to Cricket Valley Energy Center, the new facility:

- Could replace older, dirtier power plants and help to displace some of their harmful greenhouse gas emissions;
- Is consistent with the current State Energy Plan and advances recommendations of Governor Cuomo's Energy Highway Blueprint to accelerate investments in electric generation to strengthen system reliability while creating jobs and stimulating economic development; and
- Supports efforts to find replacement power for the potential retirement of generating facilities in southeastern New York.

Cricket Valley estimated that the project will directly create approximately 300 construction jobs and 28 permanent jobs during operation. The company said it could potentially expect to begin construction in 2014.

Cricket Valley is an affiliate of Advanced Power AG, an energy development company headquartered in Zug, Switzerland, with its central office in London. Marubeni Power International, Inc. also owns a 20 percent interest in Cricket Valley. Advanced Power and a subsidiary of General Electric Company, GE Energy LLC have entered into a Joint Development Agreement for the development of the Cricket Valley facility. GE will supply its latest 7FA gas turbine technology and the steam turbines for the project. GE will manufacture the steam turbine and generators in Schenectady, New York and the gas turbines will be manufactured in Greenville, South Carolina. (Case 11-E-0593)

VIII. SAFETY

Natural Gas Utilities Meet Safety Goals

The Public Service Commission received a report at the June 2012 session from Department staff on 2011 *Gas Safety Performance Measures Report* which examined the natural gas local distribution companies' (LDCs) performance in three areas pertaining to safety — damage prevention, emergency response, and leak management. In addition, staff made recommendations where performance improvements were needed.

The first measure, damage prevention, examined in the staff report gauged the ability of LDCs to minimize damages to buried facilities caused by excavation activities. Staff's examination in the area of damage prevention, found that the rate of total damages statewide improved 7.1 percent from 2010 performance, and 67 percent since 2003, the first year of performance measures reporting.

Staff attributed these positive results in reducing damage to underground facilities in part, to public education efforts undertaken by both the LDCs and the One-Call Centers — accessible to contractors, excavators or homeowners by dialing 811 prior to doing any excavation or digging.

The second measure, emergency response, analyzed in the staff report gauged the ability of LDCs to respond promptly to reports of gas leaks or emergencies by examining the percentage of calls that fall within various response times. There are three specific response goals: respond to 75 percent of emergency calls within 30 minutes; 90 percent within 45 minutes; and 95 percent within 60 minutes. General improvement occurred over the past nine years, and statewide performance during 2011 marked the best performance level since data has been collected, and four years in a row that all eleven LCDs met the three response targets.

The third measure addressed in the staff report, leak management, examined LDC performance to effectively maintain leak inventories and keep potentially hazardous leaks to a minimum. This measure looks at the year-end backlog of leaks requiring repair. The statewide year-end 2011 backlog was 22 percent less than year-end 2010. Compared to 2003, the first year of performance measures reporting, it is 87 percent less.

Incentive programs to reduce safety risks by replacing deteriorating and leak-prone infrastructure and/or reducing leak backlogs have been incorporated into past and current rate agreements for LDCs. Across the state, LDCs are collectively working to update the gas distribution infrastructure. In 2012, LDCs replaced more than 310 miles of leak-prone pipe in New York State in an effort to improve public safety, and over time, help reduce the leakage rates LDCs experience.

All LDCs demonstrated sustained improvement over the past several years. These companies — which supply natural gas to millions of homes and businesses across New York State — are recognized for ensuring necessary safeguards are in place to protect customers. - PSC Chairman Garry Brown

Staff reported that it will continue to work with the LDCs to ensure that their enhanced natural gas outreach and education programs are implemented as soon as possible in order to increase the availability and variety of gas safety information available to New Yorkers. (Case 12-G-0222)

Stray Voltage Surveys Meet Expectations

In June 2012, the Public Service Commission received a report from Department of Public Service staff that indicated that, for 2011, utilities met the requirements of the Safety Standards Order and continued in their efforts to provide safe electric service and ensure that the public is not put at risk from instances of stray voltage.

The inspection process involves visual inspection of electric facilities to identify any damage that may cause hazardous conditions or reliability concerns. Inspections are done by a combination of trained company employees and contractors. If an inspection reveals a deficiency, the safety standards require utilities to make all repairs necessary to eliminate the deficiency based upon its severity.

The utilities are also required to test annually streetlights along public thoroughfares for stray voltage, regardless of ownership. Stray voltage testing is generally a manual process performed using handheld devices. The Commission also required that 12 mobile surveys be performed in New York City; two mobile surveys be completed in Buffalo; and one each in Yonkers, White Plains, Albany, Niagara Falls, Rochester, and New Rochelle. In areas served predominantly by underground facilities, utilities can use mobile testing instead of manual testing. Consolidated Edison Company of New York, Inc. (Con Edison), National Grid, and Rochester Gas and Electric Corporation (RG&E) all utilized mobile testing as a means of compliance.

Manual stray voltage testing was performed on approximately 4 million utility facilities statewide in 2011, with 1,837 stray voltage findings identified. Of the total stray voltage findings, 480 (26 percent) were at voltage levels of 4.5V or higher. Findings on streetlights accounted for 316 (67 percent) of the conditions at voltage levels of 4.5V or higher. (Case 12-E-0198)

> *New York has the most comprehensive stray voltage-testing program in the nation. The Commission established its electric safety standards to safeguard the public from exposure to stray voltage and to identify and eliminate potentially harmful conditions before serious safety hazards and/or reliability deficiencies develop. To accomplish this goal, electric utilities are required to annually test all of their publicly accessible electric facilities for stray voltage and to inspect all of their electric facilities at least once every five years. Statewide, the companies are meeting our overall expectations.*- PSC Chairman Garry Brown

IX. TELECOMMUNICATIONS

State Universal Service Fund Established

The Public Service Commission in August 2012 adopted a Joint Proposal establishing a State Universal Service Fund (SUSF). The Joint Proposal (supported by Staff of the Department of Public Service, the Utility Intervention Unit of the Department of State, Verizon and New York's small telephone companies, cable telecommunication companies, and wireless companies), provided for continued funding of up to $17 million over a four-year period, to ensure continued availability of basic residential local telephone service in high-cost rural areas of New York.

The SUSF, administered by the Targeted Accessibility Fund (TAF) Administrator, provides for a total of up to $17 million over the next four years, with $5 million available in 2013, and $4 million in years 2014-2016. Thirty-one smaller local exchange companies are eligible for funding if they can demonstrate the need for such funding via a rate case.

The Commission's State Universal Service Proceeding (Case 09-M-0527) was instituted in August 2009 to examine universal service issues when it appeared that the current mechanism for such support (the "Transition Fund") might be exhausted in early 2011. The proceeding has been structured into three phases. Earlier in Phase I of this proceeding, the Commission temporarily extended the funding, pending a decision on whether to establish a longer-term successor fund. The adoption of the Joint Proposal and the establishment of a State Universal Service Fund (in Phase II of this proceeding) provides stability for both customers and companies in terms of universal service and will help ease upward pressure on local telephone service rates for the next four years. Under the terms of the Joint Proposal, in three years (2016) the Commission will commence a review to determine whether another successor fund should be established, and if so, its nature and features. The SUSF will continue until that review is completed. Finally, the Joint Proposal also provided for the scheduling of consideration of Phase III issues (intrastate access charges and the New York

Targeted Accessibility Fund.) (Case 09-M-0527)

While the telecommunications environment has become more diverse, competitive, and continues to evolve, the Commission remains dedicated to ensuring the availability of affordable basic residential telephone service throughout New York State.- PSC Chairman Garry Brown

Lifeline Awareness Week

The Commission announced September 10-16, 2012, as *"Lifeline Awareness Week"* to encourage income-eligible customers to sign up for a discount on their telephone service through the *Lifeline* program. The program provides qualified consumer with discounts for monthly residential phone bills for basic telephone service.

Under the *Lifeline* program, wireline customers receive a waiver of the federal subscriber line charge, a savings of at least $75 annually, as well as a discount on their basic local service charge. The total discount varies depending on the local telephone service provider and the program includes some wireless and cellular service providers.

Customers participating or eligible to participate in the following programs—Supplemental Security Income (SSI), Home Energy Assistance Program (HEAP), Food Stamps, Medicaid, Veterans' Disability or Surviving Spouse Pension, Family Assistance or the Safety Net Assistance programs—are eligible for the *Lifeline* program discount for basic residential telephone service.

As part of a national effort, the Commission stressed the need to raise awareness of this important and valuable program that provides discounts to low-income New Yorkers for primary residential telephone service. Although the program has been in place for over 25 years, many eligible customers still fail to take advantage of the discount offered under the Lifeline program. PSC Chairman Garry Brown

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