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STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION  
BIMONTHLY MEETING  
OF THE PUBLIC SERVICE COMMISSION

Thursday, May 15, 2014  
9:00 a.m.  
19th Floor Board Room  
Three Empire State Plaza  
Albany, New York 12223-1350

COMMISSIONERS:  
Audrey Zibelman, Chair  
Diane X. Burman  
Patricia L. Acampora  
Garry Brown

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2 (The hearing commenced at 9:00  
3 a.m.)

4 CHAIR ZIBELMAN: Good morning,  
5 everyone. Thank you for joining us. I think today  
6 may be our first occasion to use this new process.  
7 We're having technical conferences and asking people  
8 to come in so that we can do fact finding. And I  
9 really appreciate the involvement, the presentations  
10 that we've seen. I think they're all going to be  
11 posted.

12 And I want everyone to understand  
13 that today we are in the process of gathering  
14 information. We will have an opportunity to invite  
15 you to write additional comments and thoughts after  
16 hearing the presentations today.

17 And all the presentations are going  
18 to be online. Before I begin officially, Secretary  
19 Burgess, is there any additional changes to the  
20 agenda for today?

21 SECRETARY BURGESS: There are no  
22 changes to the agenda. But, if I may just go over  
23 the guidelines for the presentations this morning?

24 CHAIR ZIBELMAN: Sure.

25 SECRETARY BURGESS: Just so you

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2 know, some guidelines that we have in place because  
3 the presenters are going to be providing a wealth of  
4 information, so we want to make sure there's adequate  
5 time for all the presentations, and also time for the  
6 commissioners to ask all their questions.

7 So with respect to the time limits,  
8 the presenters were made aware of the time periods  
9 that they have. For our initial panel in background,  
10 each of those panels will have about fifteen minutes.  
11 The first panel will have six minutes, and then ten  
12 minutes for each of -- for each presenter for each of  
13 the remaining panels.

14 I'm going to be using this lighting  
15 system. When you're speaking, the green light will  
16 be on. When you have one minute left, it will be  
17 flashing. And when your time is up, it's going to be  
18 very red. And I ask you to please be mindful of that  
19 time, just so there is adequate time for all the  
20 presenters to present, and so the commissioners do  
21 have time to ask their questions.

22 There will be a dedicated question  
23 and answer period, which will be at the end of the  
24 panel. Not after each individual speaker. So after  
25 all the presenters have finished their presentations,

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2 then the commissioners -- the chair will begin the  
3 conversation, and each of the commissioners will have  
4 opportunities to ask questions.

5 As the chair mentioned, all of the  
6 materials are posted now on the website, all these  
7 presentations. If you go on the Commission's website  
8 under the webcast session schedule and look at  
9 today's date, there's a box there where you can click  
10 on, and all these materials are available now for you  
11 to view as presentations are being -- are going on.

12 And finally, as the chair  
13 mentioned, there is going to be a thirty-day comment  
14 period. I'll issue a notice tomorrow, and that will  
15 set forth a process for submitting comments on any  
16 issues that are discussed today. I just ask you to  
17 include the docket number for this case. The matter  
18 number is fourteen, dash, zero zero nine three three.  
19 That will be included on the notice tomorrow. But  
20 please make sure that you include that. Thank you.

21 CHAIR ZIBELMAN: Thank you.

22 And if you do go over, there will  
23 be electric shocks underneath the table.

24 Before we begin, first of all, I  
25 want to set -- make sure that we are setting the

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2 stage in the right way. This is, for myself and my  
3 fellow commissioners, really a fact-finding inquiry.  
4 Clearly, last winter's -- this past winter's cold  
5 weather, the polar vortex created high prices,  
6 responses in the market. One -- and our concern, of  
7 course, is -- moving forward, is really two of our  
8 major pillars of things that we get concerned about.

9 One is reliability, trying to  
10 understand, if there's a scarcity of infrastructure,  
11 where that might lie, and what types of things we  
12 need to be doing to change that. And also, in terms  
13 of reliability, if there are operating changes that  
14 we would ask that the ISOs or generators or others to  
15 make that we work with our -- with FERC, and see that  
16 those changes are -- are being made.

17 And on that note, I would want to  
18 note my appreciation in advance for -- for FERC  
19 Commissioner Cheryl LaFleur has graciously allowed  
20 us -- asked our -- answered our request to have  
21 Jeffery Dennis join us today from FERC. And we're  
22 very appreciative in advance of the work that FERC is  
23 doing already to start to address these issues.  
24 Today is really the focus on what we should be doing  
25 at the state level, what changes we should be making

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2    as we move forward.

3                                   The other piece, of course, of our  
4    concern is prices, and price volatility, and its  
5    effect on consumers. And that really gets to the  
6    heart, which is -- you know, I'm looking forward to  
7    hearing from the consumer panel. But really,  
8    thinking in terms of what we can do because there's  
9    always going to be volatility in this market. That  
10   doesn't mean it's a problem. It's the nature of the  
11   commodity we're dealing with. But in fact, we need  
12   to think about how do we protect consumers who,  
13   otherwise, can't protect themselves because of -- in  
14   those particular residential and mass market, to make  
15   sure that they're appropriately hedged, and to think  
16   about what we -- what policies we might put in place  
17   going forward to address that type of situation.

18                                  Again, I -- one of the things I do  
19   want to note, though, that, you know, one of the  
20   things that we did see is that despite the polar  
21   vortex, and I think you'll be hearing about this  
22   today, the system performed. We didn't have  
23   blackouts. We didn't have brownouts. The generators  
24   did an excellent job. ISO did an excellent job. The  
25   transmission owners did an excellent job. That --

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2    that is important.

3                                    But nonetheless, when we see prices  
4    like this, these are silent signals. And it's  
5    important that we start addressing them and then we  
6    begin looking at these collectively. And I -- I  
7    would say, without hesitation, based on the people I  
8    know who are in this room, and the people in the  
9    industry in New York, that everyone here wants to be  
10   in a position that we're not having to answer  
11   complaints about consumers who are unable to pay  
12   their bills.

13                                   And that's what really the focus is  
14   today, is what we should be doing going forward to  
15   better position ourselves because, as we've learned  
16   in New York, these weather events are not one-time  
17   events, and we need to think about this as our new  
18   reality.

19                                   So I appreciate, also, that a lot  
20   of these issues are about the intersection of gas and  
21   electric. And that's -- that's an issue that, I  
22   think, the nation is being to deal with, the FERC is  
23   dealing with. And I want to congratulate, actually,  
24   Garry Brown, who was, early on, advocating for  
25   looking at this intersection, and has been hard at

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2 work, and in fact -- helped put this -- organize this  
3 agenda to make sure that we can continue to look at  
4 these issues, and delve into them in a meaningful  
5 way.

6                   So with that, we have all of the  
7 bios in the back, and they're also online. So I'm  
8 not going to go through and give everybody's  
9 introduction, but I can tell you we have a lot of  
10 smart people in this room. So I think we're going to  
11 figure some things out.

12                   And let me start then, and our  
13 first panel is really setting the background. Again,  
14 welcome, Jeffery. I really appreciate FERC's  
15 participation here, and -- and look forward to  
16 hearing what -- what you have to say, and what you're  
17 doing.

18                   And then also, Raj Addepalli, as  
19 well as some of his team members, Mike Twergo,  
20 (phonetic spelling), and Cynthia McCarron will be  
21 providing information that the Staff has put  
22 together.

23                   So we'll start off with you,  
24 Jeffery, and please -- Jeffery is the director of the  
25 Division of Policy Development for the FERC.

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2 MR. DENNIS: Thank you, Chair  
3 Zibelman and Commissioners. Good morning.

4 My name is Jeff Dennis, and I'm  
5 director of the Division of Policy Development in  
6 FERC's office of Energy Policy and Innovation.

7 I'll move closer. It's rare I'm  
8 unable to be heard.

9 We appreciate the invitation to  
10 help set the stage for your discussions this morning  
11 with an overview of regional conditions and impacts  
12 from the severe cold weather events experienced last  
13 winter. I am presenting FERC staff's preliminary  
14 observations and analysis of the operations of the  
15 natural gas, and the regional R.T.O. and I.S.O.  
16 markets under conditions of severe stress and market  
17 pressures.

18 I'd like to thank staff in FERC's  
19 Office of Enforcement, Division of Energy Market  
20 Oversight, and Division of Analytics and  
21 Surveillance, and FERC's office of Electric  
22 Reliability for their work in compiling and analyzing  
23 the data and observations in this presentation. This  
24 report does not necessarily reflect the view of the  
25 Commission or any commissioner.

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2                                    The first three months of 2014 were  
3 marked by historically cold weather across large  
4 swaths of the country, record high natural gas and  
5 electric demand, and record high natural gas prices,  
6 which translated into abnormally high electricity  
7 prices. The cold weather tested the performance of  
8 the natural gas and electricity systems, and the  
9 functioning of markets, which at times came under  
10 severe stress.

11                                  Four major cold events occurred in  
12 the natural gas and power markets during January and  
13 February, followed by a less extensive event in early  
14 March. This presentation will largely focus on the  
15 impacts of the first three major cold events you see  
16 there, which had the most impact in New York, and the  
17 surrounding regions.

18                                  U.S. daily natural gas demand  
19 spiked to record highs in January, coincident with  
20 the extreme cold weather events. Widespread low  
21 temperatures, high winds, and snow drove U.S. natural  
22 gas demand to reach an all-time peak of one hundred  
23 and thirty-seven billion cubic feet, or B.C.F., on  
24 January 7.

25                                  During the later January events,

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2        U.S. natural gas demand topped out at one hundred and  
3        thirty-two B.C.F. per day on January 27th, compared  
4        to the eighty-six B.C.F. per day five-year average  
5        for that date, but did not reach the peak set earlier  
6        in the month.

7                                    There were two lesser demand spikes  
8        in earlier February -- or I'm sorry -- in early  
9        February and early March that were well above the  
10       five-year range. Overall, U.S. natural gas demand  
11       during this period increased eight percent over last  
12       year, averaging ninety-six B.C.F. per day, a record  
13       for the quarter.

14                                  Residential and commercial demand  
15       was up fifteen percent. Industrial natural gas  
16       demand was up two percent, while power burn fell one  
17       point five percent. The notable decline in power  
18       burn can be attributed in part to increased reliance  
19       on fuel oil generation discussed in greater detail  
20       later in this presentation.

21                                  Natural gas supply, including  
22       strong production from shale resources and imports,  
23       averaged seventy-two B.C.F. per day, up three percent  
24       from last year. The gap between natural gas supply  
25       and demand was filled by storage withdrawals, which

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2    set several records during January and February, and  
3    left U.S. natural gas storage depleted at an  
4    eleven-year low of eight hundred and ninety-six  
5    B.C.F. for the week ending March 21st. For the week  
6    ending May 2nd, U.S. natural gas storage had  
7    recovered to one thousand fifty-five B.C.F.

8                                    The three major cold events that  
9    stressed natural gas and power markets during January  
10   and early February were spread across a large portion  
11   of the eastern United States, resulting in coincident  
12   peak demand conditions in the northeast and  
13   southeast. During the early January event, northeast  
14   natural gas demands spiked to forty-two B.C.F. per  
15   day, the highest since 2009. Record cold blanketed  
16   the southeast, as well, and natural gas demand there  
17   reached an all-time high of twenty-five B.C.F. per  
18   day. High natural gas demand in the southeast  
19   coupled with coincident high demand in the  
20   mid-Atlantic and northeast, resulted in constrained  
21   conditions on numerous eastern gas pipelines,  
22   spanning from the Gulf Coast to the northeast.

23                                    Another major winter storm hit the  
24   northeast on January 22nd, sending temperatures,  
25   again, into the low single digits. Northeast natural

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2    gas demand reached forty-one and a half B.C.F. per  
3    day, just shy of the record set during the early  
4    January cold spell, while southeast natural gas  
5    demand reached twenty-three point nine B.C.F. on the  
6    same day.

7                                    Natural gas pipelines serving the  
8    region issued capacity constraint warnings and  
9    operational flow orders, holding customers to  
10   scheduled flows. Additionally, many storage  
11   facilities issued restrictions on withdrawals. Local  
12   distribution companies also issued O.F.O.s, and  
13   requested that customers voluntarily curtail demand  
14   during peak load periods.

15                                    At least one point five B.C.F. per  
16   day of U.S. natural gas production was shut in due to  
17   well freeze-offs, with northeast gas production down,  
18   eight hundred M.M.S per day. More expansive  
19   transportation and storage constraints than  
20   experienced during the earlier January event, coupled  
21   with production losses and continued strong demand,  
22   resulted in severe operational strains, and  
23   manifested in unprecedented natural gas price spikes  
24   across the U.S.

25                                    The cold temperatures persisted

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2    into late January, when natural gas demand once again  
3    spiked reaching thirty-nine B.C.F. per day in the  
4    northeast, and twenty-three and a half B.C.F. per day  
5    in the southeast.

6                                    During each of these cold events,  
7    customers who had firm transportation capacity on  
8    natural gas pipelines generally managed to secure  
9    natural gas deliveries.

10                                  During the early January cold  
11    event, record natural gas demand pushed spot natural  
12    gas prices for delivery, on January 7, significantly  
13    higher. In New York, spot prices reached fifty-five  
14    dollars and forty-nine cents per M.M. B.T.U. at  
15    transcode zone six New York, while prices spiked to  
16    around seventy dollars per M.M. B.T.U. in the  
17    Philadelphia region and the mid-Atlantic with some  
18    intraday trades reaching upwards of one hundred  
19    dollars per M.M. B.T.U.

20                                  These high natural gas prices at  
21    major northeast points broke all previous records  
22    during the January 22nd event, propelled by more  
23    severe and widespread system constraints. Prices at  
24    transcode zone six New York, and transcode zone five  
25    reached one hundred and twenty dollars per M.M.

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2    B.T.U., while in transcode zone six non-New York,  
3    prices spiked one hundred and twenty-three dollars  
4    per M.M. B.T.U.

5                                    Those active in the natural gas  
6    spot market were at times exposed to these record  
7    high prices. Similarly, as discussed in detail  
8    later, customers purchasing in the R.T.O. energy  
9    markets were exposed to dramatic price spikes driven  
10   by high natural gas prices.

11                                  A week later, on January 27th,  
12   northeast prices, again, spiked almost one hundred  
13   dollars per M.M. B.T.U. However, this time the  
14   effects were more widespread, and the spot natural  
15   gas prices in the Midwest reached over fifty dollars.

16                                  Use of backup fuel oil by  
17   generators, liquefied natural gas from the Canaport  
18   L.N.G. terminal in Nova Scotia, and slightly higher  
19   temperatures than experienced in New York in the  
20   mid-Atlantic, helped ease conditions in New England.  
21   During the early January event, prices in Boston  
22   reached thirty-four dollars per M.M. B.T.U. at the  
23   Algonquin, Citygates, while during the later January  
24   event, the price peaked at seventy-three dollars per  
25   M.M. B.T.U.

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2                                    Most other U.S. gas trading hubs  
3                                    traded below six dollars per M.M. B.T.U. during those  
4                                    cold spells, with Henry Hub reaching seven dollars  
5                                    and ninety-two cents in February, the highest since  
6                                    hurricane Ike in September of 2008.

7                                    The electric markets in the east  
8                                    were stressed during each of the cold weather events.  
9                                    During the early January event, electric demand was  
10                                    at historic levels due to the extremely cold weather.  
11                                    New winter peaks were set in NYISO, P.J.M., MISO, and  
12                                    S.P.P. ISO New England reached a peak just short of  
13                                    its -- its historic peak.

14                                    In the cold weather events later in  
15                                    January, regional demand in the eastern regions was  
16                                    high, but not at the level set in early January.  
17                                    However, the later periods did experience stresses,  
18                                    primarily because of historic natural gas prices,  
19                                    fuel delivery, and generator outages.

20                                    During the cold weather events, the  
21                                    historically high peak demand combined with high  
22                                    levels of generation outages placed the regions at  
23                                    near their capacity in meeting system demand. The  
24                                    R.T.O.s and I.S.O.s declared system emergency  
25                                    conditions on several occasions. And some

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2    implemented emergency procedures, including emergency  
3    demand response, voltage reduction, emergency energy  
4    purchases, and public appeals for conservation. They  
5    issued several maximum generation warnings, and some  
6    maximum generation actions during the period.

7                                    It is important to note that the  
8    R.T.O.s and I.S.O.s cut no firm load during this  
9    period. Where voltage reduction actions were taken,  
10   service to customers was not noticeably affected.

11                                  Demand response resources were  
12   activated to help manage the emergency. NYISO  
13   requested voluntary reduction from about nine hundred  
14   megawatts of its demand resources on January 7th.  
15   Demand resources were notified of possible deployment  
16   on January 28th, but were not activated. P.J.M.  
17   activated about two thousand megawatts of demand  
18   response for several hours during the morning and  
19   evening peaks of January 7th, and it activated over  
20   twenty-five hundred megawatts of demand resources  
21   during the January 23rd and January 28th events.

22                                  Mechanical failures in generation  
23   systems, fuel deliverability, and fuel handling  
24   problems in the extreme low temperatures experienced  
25   this winter led to high levels of forced generation



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2 natural gas procurement difficulties.

3 FERC staff continues to examine the  
4 causes of the forced outages, including ascertaining  
5 the extent to which the fuel issues were supply or  
6 delivery related.

7 Coal and natural gas generally  
8 maintained their shares as fuel for electricity  
9 generation during 2013. Preliminary data for January  
10 2014 indicates that the sizable increase in electric  
11 demand was served from mostly coal-fired generation,  
12 while natural gas fired generation actually declined  
13 slightly between December '13 -- 2013 and January  
14 2014.

15 Oil-fired generation increased from  
16 one point three to five point seven gigawatts hours  
17 in the same timeframe, although the January total  
18 only amounted to about two percent of the total  
19 generation nationwide. In New England and the  
20 mid-Atlantic however, the proportional shift was more  
21 dramatic. New England saw twelve percent of its  
22 electricity produced from oil fired generation in  
23 January, up from three percent in December. While in  
24 the mid-Atlantic, which includes New York, almost  
25 five percent of electricity was produced from oil

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2    fired generation in January, up from about point  
3    three percent in December.

4                                    The oil fired generation replaced  
5    natural gas fired generation due to a combination of  
6    high natural gas prices and stable, but now  
7    relatively lower oil prices, particularly at the end  
8    of January. In other cases, oil fired generation was  
9    used because non-firm transportation service was  
10    unavailable to many generators. The output from  
11    other fuels not shown on this graph was relatively  
12    flat for the period.

13                                  During the early January event, the  
14    high loads based by the electric markets were the  
15    main factor that led to high prices, requiring the  
16    R.T.O.s and I.S.O.s to dispatch more expensive  
17    generation to serve the higher loads. The  
18    electricity prices also included the impact of high  
19    natural gas prices, and the impact of scarcity prices  
20    during the limited number of hours. During this  
21    event, the L.N.P.s were near or even above two  
22    thousand megawatt hours for a number of hours in  
23    P.J.M., and a few hours in NYISO. On peak, average  
24    real time prices ran from three hundred to seven  
25    hundred dollars per megawatt hour in these regions.

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2                                    The subsequent cold events in  
3                                    January, February, and March also resulted in  
4                                    similarly high prices that the key drivers changed.  
5                                    During those later events, the prime factors leading  
6                                    to natural high gas prices were historically high  
7                                    natural gas prices. Due to the elevated levels of  
8                                    demand, most of the regions were operating at the  
9                                    high cost levels of their supply status. And in many  
10                                   cases, this meant oil units that are not often used  
11                                   because they are not in economic merit order.

12                                   Additionally, some dual fuel  
13                                   generators were forced to use oil when non-firm  
14                                   generation of natural gas became -- transportation of  
15                                   natural gas became unavailable. And on some days,  
16                                   high natural gas prices made oil fired generation  
17                                   more economic to dispatch than natural gas fired  
18                                   generation. Head-to-head price competition between  
19                                   oil and gas for power production is something that  
20                                   has not occurred much in recent years.

21                                   As natural gas is the marginal fuel  
22                                   for most electric energy markets, the price of  
23                                   natural gas plays a leading role in setting the price  
24                                   of electricity. As natural gas prices soared and  
25                                   retreated through the period, electricity prices

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2 followed, as illustrated by this graph, which shows  
3 P.J.M.'s experience. Unprecedented natural gas  
4 prices raised the possibility that some generators  
5 would need to offer below their variable fuel costs  
6 that they were required to stay below the one  
7 thousand dollar offered cap.

8                                    New York I.S.O., P.J.M., and  
9 California I.S.O. all sought and were granted waivers  
10 of the existing market rules in order to allow  
11 generators to offer power at higher prices or  
12 otherwise recover high fuel costs. In addition, the  
13 high locational marginal prices in the R.T.O.s and  
14 I.S.O.s did not reflect the entire costs of these  
15 events.

16                                    In these markets, there are  
17 provisions in place to reimburse generators for costs  
18 that are not covered through normal energy and  
19 ancillary service market sales. For example, R.T.O.  
20 and I.S.O. operators may commit additional generation  
21 out of merit order to ensure reliability. These  
22 costs are then generally recovered broadly from loads  
23 through so-called uplift. Uplift costs for the month  
24 of January with a total uplift incurred by the  
25 R.T.O.s for the entire year as operators took

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2 conservative actions to maintain reliability during  
3 the cold weather events.

4 FERC's Office of Enforcement,  
5 Division of Analytics and Surveillance routinely  
6 monitors wholesale natural gas and power markets at a  
7 more granular level to look for potential market  
8 manipulation, and any other inappropriate behavior by  
9 market participants through the use of automated  
10 screens that sift through a variety of public and  
11 non-public data. The screens were built by division  
12 staff, and based upon no manipulative schemes, market  
13 rules, behavior that could constitute manipulation,  
14 statistical measures that help identify market  
15 anomalies, and persistence measures. Analysts  
16 regularly review and analyze the output of these  
17 screens to determine whether the behavior identified  
18 by the screen requires additional analysis or follow  
19 up.

20 This routine screening initially  
21 revealed the unprecedented volatility of the natural  
22 gas markets. At the time, staff wanted to determine  
23 if these prices were the result of market scarcity,  
24 and whether any market participants were engaged in  
25 market manipulation. Some of the initial data points

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2    were screen alerts for natural gas market  
3    participants with high market concentration, seeming  
4    to purchase at ever escalating price levels,  
5    primarily in the east and the mid-continent.

6                                    Following their normal process,  
7    Division of Analytics and Surveillance staff followed  
8    up on these screen alerts. Staff interviewed natural  
9    gas suppliers, traders, and generators, coordinated  
10   with system operators and market monitors, and  
11   reviewed available data from R.T.O.s and I.S.O.s, and  
12   other sources.

13                                   In terms of preliminary  
14   observations, natural gas prices were high and  
15   deliverability into market areas was a concern.  
16   Although, shale supplies were plentiful, some gas did  
17   not make it to market demand centers in the east due  
18   to pipeline constraints, contributing to the extreme  
19   basis differentials in the price.

20                                   Some counterparties sold physical  
21   options, often to natural gas utilities, and then had  
22   to scramble to fulfill those obligations with the  
23   commodity when they were called or pay high financial  
24   penalties. Going into the winter many market  
25   participants expected plentiful supply and pipeline

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2    capacity, consistent with recent market conditions.

3                                    When the prices for trading from  
4    January came in so high, almost twenty-two dollars  
5    from M.M. B.T.U. in New England, for example, some  
6    companies decided to go into the month in short  
7    position, thinking prices could only go down. When  
8    January prices began to spike, entities that took  
9    this approach stood to have large losses as they  
10   entered the spot market to obtain needed supplies.

11                                  Generators were hit particularly  
12   hard by market stresses and high spot natural gas  
13   prices. Market stress was exasperated by operational  
14   logistics, in particular, requirements that  
15   generators consume gas on a twenty-four-hour ratable  
16   basis due to pipeline operational restrictions. Some  
17   generators found it difficult to accommodate dispatch  
18   directions that required them to buy intra-day gas.

19                                  System operators managed the high  
20   demand periods and generator inflexibility with  
21   conservative operations that, as noted earlier, led  
22   to high amounts of uplift. Examples of this  
23   conservatism included earlier than normal commitment  
24   of generating units, to ensure gas availability, in  
25   not committing fuel oil units that were economic.

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2    Instead, conserving them for an anticipated peak,  
3    thereby, putting more pressure on the gas market.

4    The Office of Enforcement has not seen indications of  
5    market manipulation thus far, but their review is  
6    ongoing.

7                                    FERC held a commissioner-led  
8    technical conference on winter 2013-2014 operations  
9    and market performance in the R.T.O.s and I.S.O.s on  
10   April 1st, 2014. In the morning, commissioners  
11   received a presentation from FERC staff, summarizing  
12   overall marketing system conditions during periods of  
13   extreme cold temperatures last winter.

14                                  Each FERC jurisdictional R.T.O.,  
15   I.S.O. then provided presentations discussing, among  
16   other things, the impact of the cold weather events  
17   on operations and market conditions in their region,  
18   how they prepared for those events, and the steps,  
19   they took in real time to manage any operational  
20   impacts. In the afternoon, a panel of stakeholders,  
21   including electric utilities, electric generators,  
22   natural gas pipelines, natural gas L.D.C.s, and  
23   consumer representatives discussed the operational  
24   and market impacts of these events from their  
25   perspectives, and offered ideas regarding lessons

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2   learned from these events that could be applied in  
3   the future.

4                                   Finally, the FERC commissioners and  
5   state commissioners from several regions, including  
6   Chair Zibelman, concluded the day with a roundtable  
7   discussion reviewing what they heard during the day  
8   and lessons learned. Post-technical conference  
9   comments are due today, May 15th, 2014.

10                                  Thank you very much.

11                                  CHAIR ZIBELMAN: Thank you.

12                                  Mr. Addepalli?

13                                  MR. ADDEPALLI: Good morning, Chair  
14   Zibelman and Commissioners. In addition to me, I  
15   have staff who helped put together this presentation,  
16   Michael Twergo, our chief of electric rates and  
17   tariffs, our supervisor in the bulk electric systems,  
18   and Cindy McCarron, our deputy director of gas and  
19   water.

20                                  Jeff just presented the regional  
21   views. I'll focus more on New York specific, and try  
22   to tee up some of the issues associated with both the  
23   supply and price, and see what lessons learned, and  
24   what we need to focus on for the next winter and  
25   beyond.

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2 So looking at New York specific, as  
3 Jeff said, it was a cold winter, as all of us know  
4 how cold it was. One metric that is pretty typical  
5 that we look at to assess how cold it was is the  
6 heating degree-days. What we show you here on this  
7 chart is for the last decade or more, how many  
8 heating degree days were there in New York in both  
9 Albany location and in New York City.

10 If you look at the last bar,  
11 2013-14 winter, that's the coldest or one of the  
12 coldest winters in the last twenty-eight years that  
13 we have seen.

14 On the next slide, as a result, and  
15 partly due to that and other reasons, as Jeff said,  
16 the prices have gone up significantly. The gas  
17 prices -- the natural gas prices, and this shows you  
18 for the last number of winters the natural gas prices  
19 at different hubs, the transcode zone six, Iroquois,  
20 and Algonquin, Citygates, and plotted against the  
21 heating degree days. The more heating degree days,  
22 the higher the prices are. And the prices, as you  
23 will see, this past winter were the highest in the  
24 last seven numbers that are shown there. So we have  
25 the highest gas prices in New York this past winter.

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2                                    And given the coldness, you will  
3 also see this chart shows you, on the electric side,  
4 the demand on the system for the whole New York  
5 control area. On the top, you'll see the summer  
6 peaks, and typically which we are concerned about in  
7 the electric system. At the bottom, you see the  
8 winter peaks, and this winter is a record. So we set  
9 a record in New York this winter with twenty-five  
10 thousand seven hundred thirty-eight megawatts.

11                                  By the way, last summer was also  
12 the highest load that we had in the last number of  
13 years.

14                                  And so the coldness led to high  
15 electric demand, and that led to the peak demand that  
16 we had on the system. So as you said, and as Jeff  
17 said, this led to some supply issues. On the next  
18 slide, I'll just tee up and you'll hear a lot of this  
19 from other panelists, too, later on in the supply  
20 panel. The generator meter rates that Jeff mentioned  
21 affected even in New York and created a tightening  
22 supply situation. New York I.S.O.'s Wes Yeomans will  
23 go into more details.

24                                  Basically, what the reasons were  
25 for the derates, whether they were fuel related

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2        derates, or whether they were weather related, or  
3        some other reason why the generation was not  
4        available on some of the critical days. As we also  
5        heard just now, the natural gas was not available for  
6        certain interruptible gas generators on critical  
7        days. So that led to the use of alternate fuels.  
8        And again, on certain critical days in January and  
9        February, even the dual fuel units, there were issues  
10       associated with procuring alternate fuels.

11                                  So these are some of the lessons  
12       that we have to look at from last winter. What did  
13       we learn and how do we fix any problems that we can  
14       for the coming winter and beyond in terms of  
15       available fuel, alternate fuel, especially so we can  
16       ensure reliability of the system?

17                                  Demand response is -- is a typical  
18       element that is invoked primarily during summer when  
19       we have high demands on the system. But for the  
20       first time this winter, also the New York I.S.O.  
21       invoked demand response. And Wes Yeomans tells me  
22       this is the first time we did this since 2001 in the  
23       winter period. Maybe to help other neighbors  
24       perhaps. And again, in terms of regional, we do  
25       export and import from our neighbors. And on some

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2 critical days, there were issues with imports from  
3 P.J.M. and the fact that we were exporting to P.J.M.

4 So some of these are the supply  
5 issues that need to be addressed and discussed in the  
6 next panel and beyond, as to what lessons can we  
7 learn, and what do we need to do after that.

8 Looking at prices, as we focus on  
9 prices, this chart shows you since the I.S.O.'s  
10 conception in New York of the eleven regions, the  
11 three major points that are flagged here are in the  
12 western part of the state, and the Capital District,  
13 and in New York City. And as you'll see, this price  
14 in January 2014 is the highest in record over the  
15 last fourteen years. We hit over a hundred and sixty  
16 dollars per megawatt hour in New York City, and over  
17 a hundred dollars in the west. This is an  
18 unprecedented level of price in New York on the  
19 electric wholesale markets.

20 Now, just looking at the last year  
21 versus this winter, last winter versus this winter --  
22 the previous slide was looking at the last fourteen  
23 years. This one is just focused on last winter  
24 through this winter. Again, West, Capital, and New  
25 York City, the prices escalated significantly, almost

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2    two to three times, especially in January and  
3    February. And again, the high prices in West, and  
4    New York City, and Capital have affected consumers on  
5    their bills, as we'll see in a minute.

6                                    On the next slide, as Jeff said,  
7    there's a high correlation between natural gas prices  
8    and electric prices. This shows you last winter  
9    versus this winter in New York, for the Capital  
10   District and in New York City the gas prices for  
11   those pipelines, and the electric corresponding  
12   prices and there's clearly a high correlation between  
13   high gas prices and corresponding high electric  
14   prices.

15                                   This one is an interesting chart  
16   that shows you there was a price separation between  
17   the western part of the state and the capital. And  
18   this will become relevant as we look at utility  
19   hedging practices, as you'll hear in the price panel  
20   later on. The -- this chart shows you, for the last  
21   ten -- eight or nine years, the difference between  
22   the price -- west and the central region for those  
23   hours in those two months, January and February.  
24   About fourteen hundred hours in those two months.

25                                   So what this shows you is the

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2    bluest bar on the top is the last winter, January and  
3    February, price differential was the highest among  
4    all those years by almost a multiple. So there's a  
5    huge difference between the west and the capital this  
6    winter, especially, and the price panel will explore  
7    some of the reasons why.

8                                    On the next, this is a different  
9    way of looking at the same information. But just for  
10   this last winter versus this winter, those two months  
11   again in January and February. If you look at those  
12   fourteen hundred hours in those two months, and how  
13   many hours was the price spread over a hundred and  
14   fifty dollars between these two points, the west and  
15   capital. So in 2013, there were only nine hours out  
16   those fourteen hundred hours that the price  
17   differential was over a hundred and fifty. But in  
18   2014, that price differential existed for a hundred  
19   and fourteen hours. Clearly, a huge multiple  
20   compared to the last winter, showing that there's a  
21   huge price spread -- a sustained price spread those  
22   two months between West and Capital.

23                                    And the next slide, please.

24   Another interesting observation on this slide that  
25   you'll notice is, as we said before, we do trade with

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2    our neighbors, I.S.O. New England, and P.J.M., and  
3    H.Q. Ontario. Here this shows just the New England,  
4    as we import and export. The more we export to New  
5    England, the price spread increases significantly.  
6    So what you see in that red line is the price spread  
7    between Zone A West, and Zone F Capital, and the blue  
8    bars are the levels of export. So the more we export  
9    the more the price spread is pronounced.

10                                  And so what does this all mean to  
11    customers, these high levels of electric prices? So  
12    we show you Con Edison in the city, a typical  
13    customer with three hundred and fifty kilowatt hours'  
14    usage per month, and the Niagara Mohawk, National  
15    Grid customer in the West and Capital, a typical  
16    usage residential of six hundred kilowatt hours per  
17    month.

18                                  Clearly, the prices went up from  
19    November, December, to January and February, January  
20    especially. And so much that in the Capital  
21    District, National Grid predicted a huge impact, and  
22    asked the commission to suspend that increase for the  
23    month of February, and spread that increase over a  
24    number of months to ameliorate the bill impacts.

25                                  And on the next slide, as a result,

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2    as -- as the chair said at the beginning, we have  
3    received a huge number of complaints at the  
4    commission. Just looking at the high bill complaints  
5    last year versus this year, it's almost three times  
6    as many complaints that we received as a result of  
7    high bills.

8                   So on the price, some of the  
9    observations are these are some of the highest prices  
10   that we've seen, the electric prices this winter.  
11   Clearly driven by high natural gas transportation  
12   costs to generators. That's where it goes into their  
13   marginal price that sets the electric price. And so  
14   we look at what solutions would be needed to address  
15   this concern. As the chair said, this is not going  
16   to be a one-time event. This may be a recurring  
17   event in the future. So we need to find solutions to  
18   address this problem.

19                   Second, we also see the spread  
20   between West and Capital, perhaps due to electric  
21   transmission congestion. While the first one is gas  
22   transportation issues and pipeline congestion, the  
23   second one is electric transmission congestion. And  
24   we need to address that, as well as to how do we  
25   reduce that congestion.

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2                                   And the third is an observation  
3   that the more we sell to our neighbors in New  
4   England, the higher Capital District prices.  
5   Clearly, New England is taking actions based on the  
6   lessons learned for them. And we should be  
7   monitoring and seeing what else we can do here in the  
8   Capital District to -- to address the concerns.

9                                   So that's a very high level teeing  
10  up the issues for you to consider as we go through  
11  the remaining -- remaining panels. And we're  
12  available if you have any questions, collectively.

13                                  CHAIR ZIBELMAN: Thank you for both  
14  the presentations. Obviously, highly informative and  
15  I appreciate the analysis, both done at the FERC  
16  level, and by staff in back casting in trying to look  
17  at trends and information so we can start grappling  
18  with what's happening.

19                                  Mr. Dennis, just a brief question  
20  for you. I think post the April 1 session, FERC has  
21  also initiated some dockets. And it may be that  
22  there are people in this room who are not aware that  
23  there are other proceedings that FERC has now  
24  started. I wondered if you wouldn't mind just  
25  summarizing some of the additional proceedings that

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2 FERC has begun to begin tackling these issues?

3 MR. DENNIS: Well, in terms of  
4 additional dockets --.

5 CHAIR ZIBELMAN: Or proceedings?

6 MR. DENNIS: Yes. We've had a  
7 few -- there's been a few filings. We've, of course,  
8 had some -- the filings I mentioned dealing with the  
9 price cap issue, and generator fuel recovery. We're  
10 receiving comments today on the April 1st technical  
11 conference. The -- the chairman kind of asked folks  
12 to -- to look at both what are the near term things  
13 we can be doing before next winter. What are the  
14 things we could and should be doing, versus what are  
15 the longer-term things we need to look at? So  
16 that -- that's kind of where we are now.

17 There aren't sort of April 1st or  
18 winter specific proceedings, other than those that I  
19 mentioned going on right now. Certainly, we've had  
20 some individual filings from P.J.M. and others to  
21 make reforms to their capacity markets heading into  
22 both next winter and looking further out. I.S.O. New  
23 England has made some filings with us, as well. And  
24 so those are the -- the kind of things we're looking  
25 at. Also, dealing with their capacity market.

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2 CHAIR ZIBELMAN: Okay.

3 MR. ADDEPALLI: I -- I believe --  
4 believe the other proceedings deal with more on the  
5 natural gas side on trading between electric and gas  
6 day, making sure consistency between the two. And  
7 also posting on the bulletin board, buyers and  
8 sellers data on intraday trades. Those are the kinds  
9 of issues that the FERC also teed up for comments.

10 CHAIR ZIBELMAN: And I --.

11 MR. DENNIS: Yes. Sorry. I  
12 should've mentioned the gas and electric  
13 coordination. To me, that was the best thing going  
14 on for so long that I -- I didn't think of it as a  
15 last winter issue. But certainly, we initiated  
16 action on scheduling in March to try to better  
17 coordinate scheduling practices between natural gas,  
18 pipelines, and electric generators, as well. There  
19 is an industry proceeding ongoing now to try to  
20 grapple with the -- the Strawman proposal that the  
21 Commission put out there. And we'll be hearing more  
22 about that in the coming months, and likely you'll  
23 see more activity from us in the fall.

24 CHAIR ZIBELMAN: Okay. Thank you.

25 And one more question. One of the

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2 things when I was looking at your price slides, in  
3 terms of the markets, you noted that P.J.M. West was  
4 one of the highest prices. And you know, typically,  
5 it's P.J.M. East; right?

6 Now, was East higher or West? And  
7 the only reason I'm asking is because I'm wondering,  
8 for our purposes, and maybe this is a question we can  
9 ask ISO and Staff, if we're going to see trending in  
10 pricing outside of P.J.M. or outside of New York,  
11 will we be more worried when P.J.M. West prices go  
12 because it imports in, or East because we tend not to  
13 see as many imports from East? As a -- but I'm --  
14 I'm just curious in terms of the -- because I -- the  
15 reason why is because of a lot of the cold,  
16 obviously, is in P.J.M. West.

17 MR. DENNIS: The -- I don't have  
18 specific data on how the imports -- what the level of  
19 imports was between P.J.M. and MISO, but certainly  
20 they traded with each other. And in some of those  
21 events, the cold moved across the upper Midwest,  
22 dipped down into P.J.M., and then moved east. So  
23 as -- as the cold dipped into that western P.J.M.  
24 area where both P.J.M. and MISO were dealing with  
25 that simultaneously, there were constraints that

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2       impacted prices in the west more than they did in the  
3       east. And you saw some flows begin to move the other  
4       way. Normally, flows are west to east at P.J.M. as  
5       you mentioned.

6                                   CHAIR ZIBELMAN: Right.

7                                   MR. DENNIS: But because of the  
8       nature of these kind of particular cold, we saw that  
9       shift a little bit.

10                                  CHAIR ZIBELMAN: And so -- and then  
11       I'll put this to Staff. I mean, and -- and then  
12       maybe West when you're -- just so I understand  
13       because typically when we import from P.J.M., which  
14       we'll do, it comes from more east. So if there's  
15       constraints in the west, it's going to affect our  
16       ability to import, which will then affect prices.  
17       That's why it becomes a matter of interest for us.  
18       Is that a logical question?

19                                  MR. ADDEPALLI: Then yes,  
20       typically, we import on a net basis. I believe  
21       around ten percent of our energy. How much from the  
22       east and west, the ISO will have a breakdown.

23                                  CHAIR ZIBELMAN: Okay. And then  
24       one question for -- for you, Raj, as I'm looking at  
25       it. I think what's -- what -- in terms of looking at

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2   the prices and the separation, that clearly was a --  
3   was an issue that's affecting the Capital Region a  
4   lot, that we -- it was unexpected. I know we'll be  
5   talking about this later today, but had -- were there  
6   transmission constraints affecting that, as well? In  
7   addition, you know, I mean if I'm -- I know we're  
8   looking at the generation, but do you see that as an  
9   electric transmission issue?

10                   MR. ADDEPALLI: Yes. Between the  
11   two points, West and Capital District, as we noted,  
12   the number of hours of congestion continues to  
13   increase. And part of that could be transmission  
14   constraints, and Central East constraints especially.  
15   We are tackling some of it in other proceedings, but  
16   there are opportunities, potentially, to address this  
17   on a more comprehensive basis that we need to look  
18   at.

19                   CHAIR ZIBELMAN: Thank you.  
20                   Further questions? Commissioner  
21   Brown?

22                   COMMISSIONER BROWN: Thank you.  
23                   And Jeff, thank you for coming.  
24   Good to see you again. I really appreciate the work  
25   that FERC has been doing in this area and taking a

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2    look. I just want to highlight a couple of longer  
3    term trends, and I'm not even really looking for a  
4    big response right now, but put it on your radar  
5    screen. And it was -- both of these that we  
6    mentioned a lot along the way.

7                                    We set up an electricity system  
8    that almost all our natural gas generators are  
9    interruptible customers. It's worked out pretty well  
10   because in the winter we need the gas for the heat,  
11   and in the summer we needed the gas for the  
12   electricity, and it's complemented each other.

13                                   Obviously, this winter we saw,  
14   perhaps, our first example of what happens if  
15   suddenly the electricity demand hits at the same time  
16   that we need the natural gas for its more traditional  
17   uses. And you might be able to attribute this to,  
18   you know, abnormally cold weather. But the question  
19   is how many -- how long this is going to go on for,  
20   whether this is going to become a pattern? And I  
21   note the D.O.E. study that's being done in the  
22   eastern interconnect planning process that's taking a  
23   longer-term look at this relationship between natural  
24   gas facilities and electricity facilities. And I  
25   know FERC's been involved in -- in that process, as

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2    well.  But I think it's something that we really need  
3    to -- it's well beyond just looking back at the last  
4    winter.  It's looking at a much larger trend.  Is  
5    this a sustainable system, whereby we try to keep all  
6    our electricity generation facilities on natural gas?

7                                    Related to that was somebody who  
8    wisely made a decision many, many, many years before  
9    I got here that dual fuel capability was a very  
10   important attribute, especially in New York City.  
11   And it paid off big time this winter.  Other regions,  
12   perhaps, didn't have those same requirements, and we  
13   saw some of the results on that, which gets me to my  
14   second point.

15                                    You can comment on this if you  
16   want, or just shake your head, whichever you feel  
17   like doing, Jeff.  It's fine.  The issue that Raj  
18   raised with imports, exports, we're in the midst of a  
19   lot of different markets here in New York, you know  
20   P.J.M. to the south, New England to the east and  
21   north, Ontario to our west, and we help each other  
22   out a lot.  The I.S.O., during system stresses, there  
23   is constant trading back and forth to try to help  
24   each of the I.S.O.s maintain system reliability.

25                                    Again, a longer-term trend that we

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2    should keep our eye on is if we see a prevailing  
3    pattern that, under certain system stresses, there's  
4    leaning going on because one system perhaps has dual  
5    fuel capability, and another system does not have  
6    dual fuel capability. And so I would hope that FERC  
7    would -- and I know they are, would be looking at  
8    some of these trends beyond just the short term what  
9    happened this winter, but the longer term are we  
10   setting ourselves up for any future issues in this  
11   regard?

12                               MR. DENNIS: Thank you,  
13   Commissioner Brown. You hit on your first longer  
14   term trend is something that was an early takeout  
15   away, I think, for us from the April 1st conference,  
16   which is really the importance of dual fuel, and the  
17   importance of -- of fuel diversity in -- in our  
18   markets. And that is something that the Commission  
19   is continuing to look at.

20                               We also have an ongoing generic  
21   docket, looking at capacity market structures. And  
22   that is certainly an issue that's been teed up there  
23   as well, is how do we ensure that we still have  
24   that -- that diverse set of resources and diverse  
25   fuels for these kind of events.

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2 I'm -- in terms of the second issue  
3 with regards to imports, we look at -- we call them  
4 seams issues, and we look at them all the time. And  
5 I know that New York and New England and P.J.M. have  
6 done a lot of work around coordinated transactions,  
7 scheduling, and other things. I expect that work to  
8 continue, and the Commission is -- the Staff is -- is  
9 always monitoring these things, and happy to talk  
10 with you more.

11 COMMISSIONER BROWN: Thank you.

12 CHAIR ZIBELMAN: Commissioner  
13 Acampora?

14 COMMISSIONER ACAMPORA: No.

15 CHAIR ZIBELMAN: Commissioner  
16 Brown -- or Burman? Sorry.

17 COMMISSIONER BURMAN: No.

18 CHAIR ZIBELMAN: All right. Thank  
19 you.

20 And we'll go on to our next panel.

21 (Off-the-record discussion)

22 (The hearing resumed.)

23 CHAIR ZIBELMAN: Good morning. We  
24 have panelists today and representing, I believe,  
25 almost all aspects of our consumer groups in New

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2    York, Michael Mager from -- a partner of Couch White.  
3    He'll be representing Multiple Intervenors.  
4    Catherine Luthin is here to represent the Consumer  
5    Power Advocates. Marcos Vigil, with the Utility  
6    Intervention Unit, with the Department of State, in  
7    New York, and Gerry Norlander, who is the executive  
8    director of the Public Utility Law Project.

9                                   So welcome to all of you. I  
10   appreciate, again, your attendance. This really,  
11   ultimately, as we said, ends up being all about the  
12   consumers and what is happening with them. And it'd  
13   be -- the purpose of our panel is really to directly  
14   understand that real consumer experience, and really  
15   start thinking about what we can do to effectuate  
16   that in a much better way.

17                                  So beginning, I guess, with Mr.  
18   Mager.

19                                  MR. MAGER: Thank you, Chair and  
20   Commissioners. Multiple Intervenors is an  
21   association of over fifty-five large industrial,  
22   commercial, and institutional energy consumers.  
23   Next.

24                                  The topics I'm going to cover are  
25   the impact of what happened this winter on Multiple

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2    Intervenors members and selected recommendations for  
3    addressing high energy prices.    Next.

4                                    The gas supply issues we've had  
5    about had tremendous impact on Multiple Intervenors  
6    members.    Members with interruptible transportation  
7    experienced frequent, prolonged interruptions, which  
8    led to unusually high reliance on alternate fuels.  
9    In some instances, facilities were required to shut  
10   down operations.    Even customers with firm  
11   transportation also experienced interruptions due to  
12   local issues.    And of course, gas prices in the spot  
13   market were astronomical.

14                                  Those gas issues, as -- as we've  
15   heard, led to historically high electricity prices.  
16   For many Multiple Intervenors members, these costs  
17   basically obliterated annual energy budgets by the  
18   first quarter of the year.    One member reported to us  
19   that the company -- the entire company lost money  
20   because of energy prices in the first quarter.    And  
21   even largely hedged customers experienced abnormal  
22   cost increases.    Next.

23                                  Some representative impacts  
24   included, as I mentioned, very high impacts on costs.  
25   Capital projects were postponed or cancelled.    In

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2    some cases, internal investments that were targeted  
3    for New York were shifted to other regions.

4                                   So I just want to hit upon three  
5    recommendations. Multiple Intervenors believes  
6    there's a pressing need to, one, increase interstate  
7    gas pipeline capacity in New York. Two, improve  
8    customer participation in, and the effectiveness of  
9    demand response programs. And three, significantly  
10   reduce surcharges to large, high-load factor  
11   customers. Next.

12                                  I won't belabor this. It appears  
13   that gas is the most economic fuel for energy for the  
14   foreseeable future in terms of new and recent gas --  
15   gas-fired electric generation. Gas-fired generators  
16   set the marginal price for energy most hours of the  
17   year. The gas problems this winter, from what we  
18   heard, were primarily related to shortages in  
19   capacity, not supply. It's clear that the state, and  
20   probably the entire northeast, lacks sufficient  
21   interstate gas pipeline capacity.

22                                  One potential concern we have is to  
23   the extent the Commission is exerting efforts to  
24   expand gas in the state's distribution system, that  
25   may exasperate problems unless the gas transmission

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2    system also is expanded contemporaneously.  And  
3    another concern that we have is absence of  
4    affirmative action by the state.  New gas capacity  
5    may be built through New York, but for the benefit of  
6    other states.

7                                   It seems -- next -- it seems clear  
8    that increase -- that pipelines will not expand in  
9    New York absent long-term contractual commitments.  
10   That's the way it's typically done.  And it's our  
11   opinion that neither generators, nor marketers, nor  
12   customers are generally in a position to make such  
13   long-term commitments.  And we also have a concern  
14   that if generators are forced to procure a firm  
15   transportation capacity, it would likely increase  
16   electricity prices significantly, and result in the  
17   inefficient use of the gas system.

18                                  We have some thoughts on increasing  
19    gas pipeline capacity.  These are for further  
20    consideration only, and are not firm positions.  One,  
21    we could require gas utilities to contract for  
22    capacity, and then release the excess.  The state  
23    also could be involved in this, either through  
24    NYSERDA or the Green Bank.  Efforts could be  
25    undertaken to increase storage capacity in the state,

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2    which would be a partial solution, and could ease  
3    some of the peak period difficulties. And also, the  
4    state could facilitate efforts by third parties, such  
5    as developers, to expedite construction of in-state  
6    gas pipeline capacity.

7                                    The second major recommendation we  
8    have is we believe there's a need to improve demand  
9    response in the state. The level of surplus electric  
10   capacity in the state has declined considerably in  
11   recent years. Between 2012 and 2013, more than  
12   thirty-seven hundred megawatts of generation located  
13   in New York exited the market, and the need for  
14   successful for demand response programs is growing.  
15   The NYISO relies on such programs, to a much larger  
16   extent for reliability purposes. Also, demand  
17   response programs provide end-use customers with the  
18   means to influence energy and capacity prices.

19                                    The next page is a slide we  
20   prepared that shows how, during the last three  
21   summers, as the price for capacity has increased  
22   significantly, the amount of customers participating  
23   in the demand response programs and special case  
24   resources has declined considerably, by as much as  
25   fifty percent in the rest of state region.

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2                                   The next slide shows that similar  
3 effects are taking place, both in New York City and  
4 Long Island, so at a time when capacity prices are  
5 rising and you would think participation and demand  
6 response would be increasing, it's actually  
7 declining. Next slide.

8                                   The reasons for the declining  
9 enrollment are numerous, and I don't have the time to  
10 get into it now. Promoting demand response programs  
11 at the retail level could offset some or all of the  
12 failings of the current wholesale level programs, and  
13 we need to increase customer participation. And  
14 Multiple Intervenors looks forward to working with  
15 the Commission, and addressing demand response issues  
16 as part of the REV proceeding.

17                                  Finally, I would be remiss if I did  
18 not mention the pressing need to reduce customer  
19 surcharges. The S.B.C., E.E.P.S., and R.P.S.  
20 surcharges have grown tremendously over time. For  
21 large, high-load factor customers, those surcharges  
22 now exceed the cost of -- of traditional delivery  
23 service. And by that, I mean the customer charge and  
24 the demand charge. The impacts are huge for large  
25 non-residential customers. Next slide.

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2 In order to protect the  
3 confidentiality of our members, we prepared a couple  
4 of hypothetical examples. These are typical Multiple  
5 Intervenors members. As you'll see, for a typical  
6 Niagara Mohawk customer with a twenty megawatt demand  
7 and eighty-five percent load factor, the annual cost  
8 of the S.B.C., E.E.P.S., and R.P.S. surcharges  
9 greatly exceed the cost of delivery service.

10 A similar example is set forth  
11 below for Central -- a Central Hudson customer with a  
12 forty megawatt demand and a ninety percent load  
13 factor. I easily could provide the Commission, if  
14 interested, with many additional examples of how  
15 these surcharges exceed the cost of traditional  
16 delivery service.

17 And we note, however, the  
18 Commission's newly instituted proceeding on a clean  
19 energy fund may lead to steps in the right direction.  
20 But we believe strongly that relief is needed now on  
21 a more urgent basis. And finally, our concerns  
22 regarding the surcharges include not only their  
23 exorbitant magnitude, but also that large  
24 non-residential customers appear to be subsidizing  
25 programs targeted at small non-residential customers

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2 that number -- a number of these programs target  
3 things, such as reducing demand and should not be  
4 recovered on a per K.W.H. basis.

5 And finally, that there is a  
6 sizable surplus that exists. According to NYSERDA's  
7 recent budgets, their -- the surplus exceeds four  
8 hundred million dollars, and easily could allow for  
9 some meaningful rate relief in this area. Thank you.

10 CHAIR ZIBELMAN: Thank you.

11 Our next panelist is Catherine  
12 Luthin. Welcome.

13 MS. LUTHIN: Hi. I represent  
14 Consumer Power Advocates. And Consumer Power  
15 Advocates members include most of the major medical  
16 and educational institutions in New York City. Next  
17 slide.

18 Ninety-five percent of the C.P.A.  
19 members actually hedge their portfolio. And they did  
20 it as a fixed price, which is going to tell a  
21 different story than most people on this panel. And  
22 they did that because they took a look at the natural  
23 gas prices. You know, in '09, natural gas prices  
24 actually declined significantly, and they hedged  
25 deals anywhere from two to five years in the future.

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2                                   And it's a simple thing, you just  
3 take a look at how NYMEX is traded every five-year  
4 period of time. And they saw that the -- the price  
5 of NYMEX' basis is actually relatively low at that  
6 period of time. It just made sense, at that point in  
7 time, to actually procure their supply at a fixed  
8 price for a rather lengthy period of time.

9                                   So -- but the small accounts  
10 typically remained with the utility, and they're  
11 actually really small. I mean, I took a look at the  
12 size yesterday, and I would say the size is about one  
13 percent of a megawatt. You know, they tended not to  
14 hedge them, but I think that's going to change in the  
15 future.

16                                  We took a look at -- we do a lot of  
17 back cast analysis. We saw, you know, when we would  
18 price these smaller accounts, and then take a look at  
19 what they would be if they remained with the utility,  
20 they tended to benefit from the utility class  
21 average. So they tended not to put those smaller  
22 accounts in a competitive supply deal.

23                                  Next slide is actually an example  
24 of a large hospital. I just wanted to show this to  
25 you. The load factor is seventy-two percent.

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2 Operations was twenty-four by seven. It took a look  
3 at the fixed price. It was a pretty decent price.  
4 It was for New York City. It was sixty-nine seventy,  
5 and then I compared it to the day ahead price. So we  
6 took a look at 2013, and the fixed price versus the  
7 day ahead index. They would've paid ten percent  
8 more. For this client, it would've been almost a  
9 million dollars more for 2013.

10 The winter of '14, we took a look  
11 at it. And actually, if they had not been hedged,  
12 they would've paid two point seven million more, or a  
13 hundred and thirty-three percent. So it's  
14 significant. However, same client, the same  
15 customer, three small accounts that were supplied by  
16 the utility that were not hedged, it is -- it's -- so  
17 I -- I looked at it two different ways. I looked at  
18 it month by month, and I also looked at it the  
19 winter -- you know, the three months in total only  
20 because the numbers are kind of whacky. And I think  
21 part of it, if someone from Con Ed is here, is  
22 because I think pricing on the utility lags. I  
23 believe that. I think the numbers are showing that  
24 to me.

25 But so I compared the day ahead

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2    price to the utility full service price. And the  
3    utility price is actually fifty-two percent more.  
4    But then February and March, it was eighteen and  
5    sixteen percent less. The day ahead index price  
6    versus the utility price ended up being four percent  
7    more. However, if they had -- if I -- if they had  
8    been put into a fixed price deal, you know, the same  
9    portfolio that for the larger accounts, they would've  
10   saved a hundred and twenty-six percent, you know,  
11   less than what they actually ended up paying. So  
12   it's a problem.

13                                    And the next slide is actually, you  
14   know, why they did what they did. You see the gas  
15   prices trending down in '10. You know, that's when  
16   the majority of these deals were put in place. You  
17   know, and they just saw, you know, the market is just  
18   so low, let's just take it out. Next slide.

19                                    In general, because they're  
20   institutions they're really risk adverse. They were  
21   involved in the deregulation of the electric system.  
22   I was with Mike back then. And it was important to  
23   have consumer choice. But it was really important  
24   for them to be able to budget with some degree of  
25   certainty what their costs are, because there's so

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2 many other aspects of their budgets that they can't  
3 control.

4 So they -- in general, you know,  
5 them being able to take a look at a budget with  
6 certainty is extremely important to them. So  
7 their -- their risk tolerance is actually really low,  
8 but they have done different procurement methods at  
9 different points in time. And market timing is  
10 everything. So I'm going to talk about that now.

11 Now, we're actually in a rising  
12 market. Most of them are actually looking at  
13 different strategies because it's a different market  
14 completely. So you go back to that slide that I  
15 showed a few pages back, the historic energy prices,  
16 you see the prices are beginning to trickle up --  
17 back up. So the fixed price deal that they executed  
18 in the past isn't necessarily -- would be the wisest  
19 choice if you take a look at what the risk premium  
20 is.

21 So you take a look at different  
22 hedging strategies, whether you looked at a fixed  
23 price deal, or a blocker index, or you put a ceiling  
24 in, and you figure out what that premium is, using a  
25 back cast analysis. It's all you can do. So when

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2 they executed those deals, the risk premium for a  
3 fixed price deal, at that point in time, versus the  
4 other supply strategies was really low. It was two  
5 percent, three percent, the cost of living. So they  
6 were very comfortable executing those long-term  
7 supply deals.

8 That risk premium for a fixed  
9 priced deal now is different. It's much higher.  
10 It's anywhere between five and eight percent. And I  
11 think as the volatility in the market increases, it  
12 will be higher. So they'll think about doing that.  
13 They'll do some sort of seasonal shaping. They can  
14 do that with their supply.

15 You know -- you know, one of the  
16 questions that you guys asked was credit, and I  
17 wanted to address that. You know, if you have good  
18 credit, you get better pricing. If you have worse  
19 credit, that risk premium that we talked about is  
20 actually going to increase in the price that's  
21 offered to a customer. It's as simple as that. The  
22 market prices it that way.

23 However, you know, consumers can  
24 negotiate. You know, if they make it part of the  
25 negotiation process, budget pricing, that's an

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2 option. And we do have C.P.A. members that are in  
3 budget pricing deals.

4 My recommendations for consumers  
5 are you really need to spend some time to review and  
6 negotiate your supplier contracts. One thing that  
7 Raj had mentioned was how much more the -- the  
8 consumption with the -- with the -- had increased.  
9 So you could actually negotiate a bandwidth that can  
10 be fairly substantial. And but -- you're not going  
11 to get it if you don't ask for it. So that's  
12 something that I'm saying you could do.

13 You -- and you also need to pay  
14 attention to your weather normalization. You just  
15 don't go back one year and say this is the number.  
16 You need to look at it several years, and really,  
17 weather normalize the consumption pattern. And that  
18 puts you in a better supply deal right there. You --  
19 you know, considering how extreme the weather was,  
20 exploring weather hedging is something that some of  
21 our clients are looking at. So that's something to  
22 do. You should monitor the markets, establish an  
23 active market management strategy, especially in a  
24 market in which you see the prices rising, which is  
25 where we're heading right now.

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2 Our clients for dual fuel, they did  
3 suffer prolonged interruptions. I would say that  
4 there were some operational issues because the  
5 interruptions were so prolonged. I know that we just  
6 got out of a rate case, but we had never experienced  
7 that long of an interruption. And I think one of the  
8 things that the Commission needs to take a look at  
9 is, with such a prolonged interruption on these dual  
10 fuel customers, how do you address the operational  
11 concern, the maintenance that arise when they're on  
12 an interruption for that long a period of time.

13 CHAIR ZIBELMAN: I just wanted to  
14 write a note. Thank you. It was very informative.

15 Our next panelist is Gerald  
16 Norlander, and welcome. And Gerry, you represent the  
17 Public Utility Law Project.

18 MR. NORLANDER: Yes.

19 CHAIR ZIBELMAN: So thank you for  
20 joining us today.

21 MR. NORLANDER: Thank you. Good  
22 morning, Commissioners.

23 Next, please.

24 Before the winter of price spikes,  
25 customers were behind in paying their bills.

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2 Customers owed about six hundred fifty-two million  
3 dollars in December. That represented about six  
4 percent of the trailing twelve months sales. Next.

5 Twelve percent of the customers,  
6 before the spike, were sixty days or more late in  
7 paying their bills, many of them incurring late  
8 payment charges of eighteen percent. And I would  
9 point out that public assistance recipients may not  
10 be included in this because many of them have their  
11 bills paid directly by the welfare departments. And  
12 then the welfare departments reconcile at later  
13 times, and reduce the future welfare grants to adjust  
14 for the higher prices. So these figures are -- are  
15 largely hitting people who are not on welfare, who  
16 are -- who lack savings, and are in debt to the  
17 utility.

18 When households experience a price  
19 spike, they are thrown into chaos because many people  
20 don't have the savings to absorb the price shock.  
21 Some research suggests that maybe twenty-five percent  
22 of households are -- don't have significant savings.  
23 And so therefore, a price jump of a significant  
24 amount will come right out of that month's  
25 expenditures for other items -- other discretionary

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2    items in the consumer economy for other household  
3    needs.

4                                    And the -- the way people address  
5    it is by borrowing more, or incurring late charges,  
6    or sacrifice in other necessary household items.  
7    Next.

8                                    About -- before the spikes, about  
9    five hundred and ninety thousand final termination  
10   notices per month were being issued by the investor  
11   owned utilities. That does not include LIPA,  
12   P.S.E.G. And we -- the trend before the spikes was  
13   rising sharply, and we suspect that when the data  
14   comes in it will show an even greater spike. And we  
15   think that perhaps, people will owe a billion dollars  
16   or more to the utilities when we see the data for  
17   January, February, and March. That data, we've asked  
18   for it, but it's not yet come in. We should get it  
19   in June, we're told.

20                                    There were twenty thousand --  
21   twenty-one thousand monthly shut-offs, again,  
22   excluding the LIPA, before the spikes. And this is  
23   the key month. April, May, June are very high months  
24   for terminations because some companies forebear.  
25   The data here is a trailing twelve-month average. So

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2 it -- it -- it's dampened, and we'll see a large  
3 spike in shut-offs this month.

4 On the pricing trends, we -- we  
5 know that the -- the FERC has allowed market-based  
6 rates. We allowed the utilities to divest their  
7 power plants, and they're now owned by merchant power  
8 suppliers, who predominantly in the I.S.O. markets or  
9 influenced by I.S.O. market prices. So even if  
10 contracts are made, they may be indexed either to gas  
11 or to I.S.O. prices.

12 So the -- the role with long-term  
13 contracts has diminished since the -- the  
14 restructuring. The natural gas fuel is only  
15 thirty-seven percent of the New York's power  
16 generation. When the natural gas price spikes,  
17 the -- the price of uranium, or water, or wind does  
18 not go up.

19 We have built a pricing structure  
20 with the gas plants setting the clearing price. And  
21 beneath that is -- is the spot market for gas that is  
22 setting the price for the peakers. So if -- you  
23 know, some people believe the world exists on the  
24 back of a turtle. This is -- makes as not as much  
25 sense, in my view.

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2 CHAIR ZIBELMAN: You may win the  
3 award for the most innovative slide.

4 MR. NORLANDER: We see the I.S.O.  
5 puts out a chart that -- it usually shows that  
6 electricity prices track gas. Next.

7 What we see here is it goes back a  
8 little further before the I.S.O. We see, on the  
9 left, what the typical bills for residential  
10 customers in the years before the I.S.O., and then we  
11 see the -- the effects of the restructuring. These  
12 are typical bills, snapshots for January and June --  
13 or July of each year, and they don't capture  
14 volatility in other months, which didn't used to  
15 happen before the -- this because we used to have  
16 summer and winter rates. And that's what the little  
17 ups and downs were on the left before 2000.

18 We see the red line on the right.  
19 On the right axis, that is the arrears of residential  
20 customers. And we just -- the data that we had was  
21 limited. We couldn't go back further. But I think  
22 we see rising arrears with the rising prices and  
23 rising volatility.

24 The state law favors stable  
25 pricing. It has been a longstanding rule that we

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2    don't allow major price increases without an ordeal  
3    of eleven month. We have the seasonal rate variation  
4    was limited to -- to usage beyond the first two  
5    hundred fifty kilowatt hours. We don't allow  
6    mandatory residential time of use rates. And the --  
7    originally the -- the fuel adjustment clause was used  
8    to true up changes in diverse fuel costs blended  
9    power generation costs, and now that has been used to  
10   flow through true-ups of the prior months I.S.O.  
11   prices, basically, as modified by -- by some  
12   contracting.

13                   Our recommendations, we need  
14   low-income rate improvement, we need a universal  
15   service fund to support it. That should be at the  
16   I.S.O. level. We need to do -- create some  
17   performance incentives for continuous rates. We  
18   should look at long-term contracts requiring the  
19   utilities to provide a fixed price option. And that  
20   we should look at some of the generators that are  
21   setting that clearing price to see if they're  
22   financially creditworthy, and whether perhaps the  
23   Power Authority could take some steps, as they did in  
24   2000, if there are problems with the viability  
25   reliability of the peakers that are too dependent on

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2 next day prices. Thank you.

3 CHAIR ZIBELMAN: Thank you very  
4 much.

5 And our fourth panelist, is Marcos  
6 Vigil. Marcos, welcome.

7 MR. VIGIL: Thank you. Good  
8 morning, Chairperson Zibelman and members of the  
9 Commission. Here, in my capacity as deputy secretary  
10 of state, overseeing the portfolio for the Division  
11 of Consumer Protection, and also participating as  
12 interim director for the Utility Intervention Unit,  
13 or U.I.U., on behalf of Secretary Perales, I thank  
14 you for the opportunity to speak to you.

15 First, I want to say that the  
16 U.I.U. supports the Commission's request for FERC to  
17 review the natural gas markets during the winter  
18 weather events. New York consumers experienced  
19 extraordinary charges for gas and electric services  
20 this winter, as we all know.

21 And also, the Commission  
22 recommended that utilities ensure that customers at  
23 risk of disconnection were aware of the availability  
24 of the deferred payment plans and budget billing. So  
25 utilities responded a number of different ways to

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2        this recommendation, including issuing press  
3        releases, running advertisements, disseminating email  
4        blasts, posting messages on social media, and  
5        inserting messages in bills to consumers to explain  
6        the options available to pay and provide for general  
7        information about the energy supply situation.

8                                    However, our experience dictates  
9        that these warnings were insufficient to forestall  
10       the effects on consumers. In January, for example,  
11       Con Edison suggested that its typical consumers would  
12       experience a gas bill of approximately sixteen point  
13       five percent higher than the prior year, and an  
14       electric bill about twenty-one point six percent  
15       higher, and they encouraged the customers to make use  
16       of the leveled payment plans.

17                                   Also, in January, National Grid  
18       requested and received approval from the Commission  
19       to defer an upcoming increase in the electric supply  
20       prices for Upstate New York residential and small  
21       business customers. National Grid also requested and  
22       received approval to provide incremental assistance  
23       to its small vulnerable customers.

24                                   What the company proposed was two  
25       emergency programs that would enhance both its arrear

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2       forgiveness programs and its electric low income  
3       discount program. These emergency programs provide  
4       for an additional one-time bill credit for customers.  
5       In addition, they requested further relief for the  
6       vulnerable population, stating that it would make a  
7       shareholder contribution of one million dollars to  
8       reopen its Care and Share program, providing bill  
9       credits up to two hundred and fifty dollars for HEAP  
10      eligible customers in arrears.

11                                In February, Central Hudson advised  
12      that its customers would experience a gas bill  
13      twenty-five percent higher than last year, and an  
14      electric bill thirty-eight percent higher than last  
15      year. They also encouraged them to enroll in a  
16      budget-billing plan, and to enter into a deferred  
17      payment agreement, and payment extension plan.

18                                From January 1st to April 30th of  
19      this year, the consumer assistance unit, which is  
20      another unit within the Division of Consumer  
21      Protection, received about thirty-five complaints  
22      from consumers specifically about higher electricity  
23      bills. Despite notifications from the utilities,  
24      D.C.P. fielded complaints from consumers who were  
25      unaware of the rising energy supply services and

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2 believed that their respective utility company had  
3 unjustifiably raised the price for their services.

4 About twenty-five percent of these  
5 customers complained that they were on a fixed  
6 income, and had difficulty paying these higher bills.  
7 Many refused to believe their utility's explanation  
8 that market prices had increased during this period,  
9 and demanded that their company be investigated.

10 About ten percent of these callers wanted also to  
11 know why the government was not doing enough to  
12 regulate the utilities.

13 I personally spoke with one of  
14 these consumers from Evans Mills in Jefferson County.  
15 She complained to me about her cost for electricity,  
16 excluding delivery service, more than doubled since  
17 December. In her complaint, she wrote that her cost  
18 from December to January jumped to about two hundred  
19 and thirty-eight dollars, and then her  
20 January-February bill again jumped to three hundred  
21 and thirty-two dollars for her February-March bill.

22 I was able to provide to this  
23 consumer some information regarding the spike in  
24 prices, and it was readily apparent to me that,  
25 explanations aside, the price spikes had a very real

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2    and detrimental impact on these types of residents  
3    around the state, many of whom lived on a fixed  
4    income, and had no means to cope with the higher  
5    price. The Commission, obviously, as was shared  
6    earlier by Staff, dealt with much higher volume of  
7    complaints, three times higher than last year. But I  
8    am sure that the customer service representative who  
9    handled most of these calls heard the same lack of  
10   understanding about the wholesale energy supply  
11   markets evidence in the ones that we received.

12                                    As stated earlier, the utilities  
13   did reach out to their low-income customers and  
14   explained options available to them, such as, low  
15   bill and -- low-income bill discounts, HEAP,  
16   emergency HEAP benefits, and NYSERDA's Empower  
17   program, which makes energy audits and energy  
18   efficiency measures available to low income  
19   customers.

20                                    In the future, however, we believe  
21   that utilities should also reach out to the community  
22   action agencies within their territories to provide  
23   further assistance to customers who are having  
24   problems with their utility bills. This is something  
25   that we do at the Division of Consumer Protection,

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2 given our interaction at the Department of State with  
3 many of these agencies around the state.

4 Better collaboration with these  
5 entities would further the goal of ensuring that  
6 customers receive adequate information from sources  
7 in their own communities that can assist them to  
8 better take advantage of all the benefits that are  
9 available to them in New York State.

10 Our website at the Department of  
11 State contains information, and a complete list of  
12 these community action agencies, and other  
13 neighborhood based organizations working for  
14 low-income customers. As part of our role, the  
15 U.I.U. would strongly encourage the state utilities  
16 to partner with these organizations, and we will be  
17 setting up those meetings between the utilities and  
18 the community action agencies in their territories to  
19 foster their relationship.

20 I would be remiss if I also don't  
21 mention the existence of what Governor Cuomo created,  
22 which is the Office for New Americans. There are  
23 twenty-seven regional offices across the state, which  
24 are -- can also help. Many of them have partnered  
25 with community action agencies, and they are in the

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2 service territories available to reach out to those  
3 vulnerable customers, many of whom may not  
4 necessarily speak English as their native language.

5 In order to lower the impact of  
6 future drastic wholesale prices increase electricity  
7 bills for residential customers and small businesses,  
8 the U.I.U. also recommends that the Commission look  
9 into its most recent national fuel gas order  
10 conducted on May 8th. The order requires N.F.G. to  
11 establish and fund a seven point five million  
12 deferred credit account for the benefit of  
13 ratepayers. As stated in the order, this account  
14 would be allocated equitably among service classes on  
15 the basis of delivery revenues, net of commodity, and  
16 would be used to provide refunds directly to  
17 customers to fund certain programs for low-income  
18 ratepayers.

19 The U.I.U. recommends that the  
20 Commission apply these same principles in -- that  
21 they used in the N.F.G. order to other potential  
22 utility over-earnings. If there are future drastic  
23 price increases, similar to the ones under  
24 consideration, the Commission should direct the  
25 excess earnings not to be deferred for future use,

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2    but instead, to be applied to current customer bills.

3                                   Finally, I have to address another  
4    role that the U.I.U. can play in order to help  
5    ratepayers. Upon Governor Cuomo's request, the  
6    U.I.U. intends to ramp up its advocacy on behalf of  
7    consumers of the wholesale electric market. As a  
8    result of a settlement agreement between the FERC and  
9    Constellation, the U.I.U. has been awarded funding  
10   for this specific purpose of strengthening its  
11   wholesale electric markets consumer advocacy. The  
12   U.I.U. serves as a designated consumer advocate when  
13   participating in matters before the I.S.O., and in  
14   particular, as a member of the N.U.'s consumer  
15   sector.

16                                  This week the U.I.U. issued -- just  
17   yesterday actually, a request for proposals to secure  
18   consulting and advocacy services to better represent  
19   the interest of end-use consumers through active  
20   participation in the governor's process of the NYISO.

21                                  The services would include seeking  
22   changes to the design of the NYISO's market rules  
23   that would benefit end-use consumers, and advocating  
24   against proposed changes that would harm end-use  
25   electric consumers. A secondary purpose is to secure

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2 consulting and advocacy services to assist the U.I.U.  
3 in its participation in selected deliberations before  
4 the FERC.

5                   I thank you for the opportunity to  
6 address you on this very important topic, and in  
7 advocating on behalf of the U.I.U. for residential  
8 customers and small businesses around the state.

9                   CHAIR ZIBELMAN: Thank you.

10                  I have a -- a couple of questions.  
11 In terms of hedging and this -- the idea of fixed  
12 pricing, Catherine, you mentioned that your customers  
13 typically like to go out for -- will go out for a  
14 three- to five-year period?

15                  MS. LUTHIN: It just made sense  
16 during that period of time.

17                  CHAIR ZIBELMAN: Okay. Do you  
18 envision that if -- I mean, one question I had is are  
19 there products that are available for longer term,  
20 you know, sort of traditional five to ten, or ten to  
21 fifteen?

22                  MS. LUTHIN: Not that I'm aware of.  
23 It's -- it's -- it was really hard to actually  
24 execute that five-year term. But we did achieve  
25 that. But five to ten year, no. And it made sense

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2    during that period of time, the market timing for  
3    that long of a hedge in terms of the experience of  
4    the market from the previous five years made it -- it  
5    made sense.

6                   CHAIR ZIBELMAN:   And Michael?

7                   MR. MAGER:   Yes.   I would -- would  
8    give a similar answer.   I -- I don't -- most of our  
9    members, to the extent they hedge, it's more shorter  
10   term, in the one to three years range.   There's --  
11   there's very few options for longer-term hedges.

12                   And also, I think part of it is the  
13   risk adverse nature of longer-term hedges for large  
14   companies, the people who are responsible for energy,  
15   the biggest or one of the biggest costs for a lot of  
16   the Multiple Intervenors members.   And if you enter  
17   into an unfavorable long-term hedge, it's a good way  
18   to be unemployed, frankly.

19                   So it's -- there's -- there's a  
20   risk adverse nature on the customer side in terms of  
21   hedging on -- so no.   There's nothing.   Very few  
22   members have anything of a longer-term nature.

23                   CHAIR ZIBELMAN:   It's a bit of a  
24   chicken and egg.   There may not be a product because  
25   there may not be a demand?

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2 MR. MAGER: Yes. I mean, I -- I  
3 sense one of the issues is there's not -- there's not  
4 a lot of bilateral contracts, certainly at the  
5 wholesale level in terms of voluntary. And there's  
6 not -- I mean, customers constantly look for hedges,  
7 but more of a short-term nature. And usually, it's  
8 not taking out a hundred percent of the load.  
9 They'll take out pieces of the load over time. You  
10 know, twenty-five percent hedge or something like  
11 that.

12 MS. LUTHIN: Yes. I mean, Audrey,  
13 years four and five had more of a risk associated  
14 with it. You can't account for the -- you know,  
15 where the capacity market is going to be that long a  
16 period of time, or what regulatory change may occur.  
17 So there would be more of a risk premium built into a  
18 longer-term hedge, too.

19 CHAIR ZIBELMAN: Okay. And let me  
20 ask you another question, and I think -- Mike, I  
21 think you brought it up, and I'm pleased -- you know,  
22 appreciate you doing this. I think that, you know,  
23 we're hearing -- we certainly heard in the first  
24 panel, and I think we'll hear throughout the day that  
25 there's a -- a scarcity now. It's not of supply, but

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2 actually of pipeline capacity.

3 And one of the things that you've  
4 brought up, and I would ask the other panelists to --  
5 to talk about as a specific issue is that in our  
6 restructured environment, where is that demand for  
7 fixed transportation capacity most effective and most  
8 efficiently lies, because in the odd situation we're  
9 in, right, in that the demand for the fixed capacity  
10 may be coming out of the power customers. And the  
11 question is, is it -- you know, who would then  
12 purchase that fixed demand -- the fixed supply on the  
13 delivery sector to drive that so that it helps reduce  
14 volatility in the prices?

15 And your thoughts, and I would be  
16 interested to know you observed that you did not  
17 think it would be efficient to put it on the  
18 generators. Could you elaborate on that?

19 MR. MAGER: Certainly. We have a  
20 couple of concerns about the idea of forcing  
21 generators to buy firm capacity. First and foremost,  
22 that -- certainly the costs are going to be passed  
23 through, and because gas fired generators set the  
24 marginal price maybe eighty percent of the hours  
25 these days, those costs will not only flow through in

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2 prices and go back to gas-fired generators, but all  
3 non-gas-fired generators will also receive those  
4 higher costs in the form of -- of higher prices.

5 And also, I'm not sure that's the  
6 most efficient use of those resources for gas-fired  
7 generators who may only need it for certain amounts  
8 of time during the course of the year to lock into  
9 long-term arrangements for firm transportation on a  
10 twelve-month basis.

11 I -- you know, I -- I do think  
12 perhaps that to the extent that what we saw this past  
13 winter is a sign of things to come, there may be some  
14 generators that elect to, on their own, acquire some  
15 amount of capacity for economic reasons if they think  
16 they'll reduce their costs, and still enable them to,  
17 you know, reap the higher prices caused, you know,  
18 when other generators don't have that and are forced  
19 to go to the spot market. But I wouldn't impose that  
20 obligation on them.

21 CHAIR ZIBELMAN: And then my other  
22 question is down to -- with respect to the  
23 residential markets. Are you seeing any increased  
24 opportunities absent from the utilities from the  
25 retailers around offering fixed products coming out

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2   of this winter? Do you see any -- anyone? Are you  
3   hearing from your customers or clients? It could be  
4   either Gerry or for Marcos.

5                   MR. NORLANDER: No. We have no  
6   data on -- on the percentage of customers who were on  
7   fixed prices versus variable prices. And I think the  
8   experience of customers, as far as we know it, is  
9   that over time people pay quite a bit more for  
10  service from third party -- party sellers.

11                  MR. VIGIL: And with respect to the  
12  U.I.U., usually our interaction would come in  
13  every -- every so often receiving a complaint  
14  actually on, you know, practices within the retail  
15  market. And it's -- it's recently with respect to  
16  this particular situation, we -- we didn't get any  
17  communication as to what was the particular situation  
18  of those low-income customers.

19                  CHAIR ZIBELMAN: Okay. Thank you.

20                  And then just one -- Michael, thank  
21  you for -- for mentioning the REV docket. I think, I  
22  agree with you that while we're talking about supply  
23  in this instance, there's a lot we can do on the  
24  demand side, and both at the commercial and  
25  residential level. A big piece of what, obviously,

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2    the Commission wants to do moving forward is make  
3    sure that we're managing the demand so that consumers  
4    who can respond are advantaged in terms of being able  
5    to both reduce their prices, but potentially, I hope,  
6    get into structured products that give them some  
7    price certainty and allow for that.

8                                    So more to come on that. And I --  
9    and I agree with you. There's a lot of work that we  
10   can do to improve it.

11                                  On terms of, I think, the comments  
12   around disconnection. Gerry, your concerns and it's  
13   certainly a concern of all of ours is that when you  
14   have to go on low incomes and fixed incomes having  
15   these types of price changes are particularly  
16   hurtful. Although, I would say on the commercial  
17   sector, it's also hard because energy plays a very  
18   big, important part of costs. But I certainly  
19   appreciate the work that the U.I.U. is -- is doing,  
20   and I would encourage continuing to look at ways that  
21   working both of our staff, as well as with the  
22   utilities to see what -- what vehicles we can put in  
23   place moving forward to both provide the information,  
24   and then potentially greater -- greater certainty or  
25   greater avoidance of harm.

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2                                   So I appreciate that activity, and  
3 look forward to continuing to work with the new  
4 ramped up U.I.U., as we move forward.

5                                   Any further comments or questions  
6 from Commissioner Brown?

7                                   COMMISSIONER BROWN: I thought the  
8 panel highlighted exactly what the problem is that  
9 the customers that can least afford to see price  
10 volatility have the fewest tools to deal with price  
11 volatility.

12                                   What I heard Michael say is your  
13 customers get hit hard, but they do have some tools  
14 available to them in order to try to protect  
15 themselves, whether they work or not depends on what  
16 happens through the year. But I thought I heard  
17 Catherine say it's her larger customers, their credit  
18 worthy customers have some opportunities to do some  
19 creative things. But it's some of your smaller  
20 customers with poorer credit may not have the tools  
21 provided to them.

22                                   MS. LUTHIN: Well, no. No. Garry,  
23 they have the tools. It just costs more.

24                                   COMMISSIONER BROWN: Okay. So  
25 they -- they have the availability of the product.

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2 By the next step was, I don't believe that a lot of  
3 the customers that Gerry's talking about even have  
4 the option of that product being provided to them.  
5 It's the question I want to ask the ESCOs, later in  
6 the day, whether there's even an opportunity for them  
7 to provide a hedged price over any long period at  
8 all.

9 You know, there may be an  
10 introductory fixed price. But that often morphs into  
11 a volatile price somewhere after a couple of months.  
12 So those are my impressions from what I hear. If  
13 anybody would like to correct me, and Catherine,  
14 you -- you did already. Thank you. I'd be  
15 interested in your comments.

16 MR. NORLANDER: I -- I do believe  
17 that the -- some of the utilities correctly perceived  
18 the problem that customers would have with volatility  
19 and offered a fixed price --.

20 COMMISSIONER BROWN: In budget.

21 MR. NORLANDER: No, not -- a fixed  
22 price electric and gas service -- fixed rate.

23 COMMISSIONER BROWN: Fixed rate.

24 MR. NORLANDER: And -- and the --  
25 then basically at the Commission's urging they

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2   introduced variable pricing, and then at the  
3   Commission's urging eliminated the fixed pricing. I  
4   think that if the -- the entities that are capable of  
5   dealing in the wholesale market are the utilities  
6   that providing the service. The -- the ESCOs tend  
7   not to have the -- the credit, nor the certainty that  
8   they'll have customers.

9                   And it may be possible still to  
10   structure some fixed price options from the  
11   utilities, and you have to deal with people hopping  
12   on and off, and that's done in other places. And  
13   that would provide some relief to customers who  
14   aren't interested in shopping, or don't want to  
15   expose themselves to volatile and uncertain pricing.

16                  And -- and the chart that I had  
17   with the -- the different utilities and what their  
18   typical bills are clearly indicate that the utilities  
19   that were slowest to accept the Commission's urging  
20   to sell their power plants, and that entered into  
21   long-term wholesale contracts protected their  
22   customers better. And that would -- that would tend  
23   to be R.G. and E. and NYSEG, and Central Hudson.

24                  And I think that if we look at  
25   the -- the information, we see that there -- there

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2 have been ways, even after they sold most or all of  
3 their power plants, for them to -- to provide  
4 better -- more -- more stable prices to customers.

5 MR. VIGIL: And I would add to  
6 that, that with respect to our recent experience in  
7 rate cases, at least we are seeing some cooperation  
8 with respect to the utilities in the N.F.G. order.  
9 Niagara Mohawk, the recent case, as well as in Con  
10 Edison, of providing alternatives for customers who  
11 lack the sophistication to understand what their  
12 options are.

13 And we have proposed, and the  
14 Commission has approved, several opportunities for  
15 bill calculators to be included, for information to  
16 be available on websites, and we would encourage,  
17 obviously, the ESCOs to explore options where some  
18 fixed rate options are available for low-income,  
19 particularly consumers and the really small  
20 residential, and -- I mean, small business consumers  
21 understand what their options may be.

22 CHAIR ZIBELMAN: Thank you. Thank  
23 you. That's very helpful. We will move on to our  
24 next panel, then. Thank you.

25 COMMISSIONER BROWN: Why don't we

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2 take five minutes?

3 CHAIR ZIBELMAN: Yeah, we are.

4 We're going to take a five-minute break.

5 (Off the record)

6 (The hearing resumed.)

7 CHAIR ZIBELMAN: We're going to  
8 move on to Panel Two, which is actually Panel Three.  
9 This is -- Raj always likes to trip me up, but it is  
10 our second panel.

11 And this -- this panel's really  
12 going to be focusing on issues regarding the  
13 reliability of supply, as well as fuel adequacy. And  
14 with us, we have Wes Yeomans, who is the Vice  
15 President of Operations as a New York Independent  
16 System Operator. Charles Wesley, who is the Program  
17 Manager at the New York -- NYSEERDA -- make it easier  
18 on ourselves. Steven Parisi, who's the General  
19 Manager of Operations on Con Ed.

20 And your -- your role is on the --  
21 the -- the distribution --

22 MR. PARISI: Bulk power system.

23 CHAIR ZIBELMAN: -- bulk power  
24 system.

25 MR. PARISI: Bulk power system, as

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2 well.

3 CHAIR ZIBELMAN: And Cortney Madea,  
4 who's Senior Counsel at N.R.G. Roger -- Richard  
5 Truxell, who's the Manager of Pipeline Control at  
6 Transco. Michelle Bloodworth, who's the Senior  
7 Director of Power Generation at the American National  
8 Gas Alliance. And Kevin Rooney, who's the Chief  
9 Executive Officer of the Oil Heat Institute of Long  
10 Island.

11 So, welcome all of you.

12 Again, for those of you who are  
13 just joining us, all the presentations are online and  
14 the marvelous bios of these folks are -- are -- are  
15 also posted, so we won't go through all of that.  
16 But -- well, we'll start then with Wes.  
17 Thank you. And thank you all for joining us today.

18 MR. YEOMANS: Okay. Thank you.  
19 The New York I.S.O. certainly appreciates the  
20 opportunity to be part of these very important  
21 discussions, especially in the areas of, you know,  
22 bulk power reliability and reliability to customers,  
23 market outcomes, and efficiency and planning  
24 processes. So, we -- we really are happy to be part  
25 of these discussions and hope to be helpful with

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2    these initiatives going forward.

3                                   This presentation, we'll talk a  
4    little more about pricing outcomes. I know the  
5    audience has seen some slides on pricing outcomes,  
6    but we'll go into that a little bit in my -- my  
7    presentation. Also talk about the operating  
8    performance of the power system this past winter,  
9    especially during these cold time periods. And then  
10   I'll talk about next steps, at least with the New  
11   York I.S.O. in the areas of improved coordination,  
12   markets, and planning.

13                                  Everyone's aware of how cold it was  
14    this winter. We -- we think -- we measured as five  
15    major cold snaps across the winter. It seemed like  
16    it was just cold from December 14th to the middle of  
17    February, three different polar vortex' that extended  
18    across much of the country.

19                                  On January 7th, as -- as Raj  
20    mentioned, the New York I.S.O. did set a new record  
21    peak winter load of twenty-five thousand seven  
22    hundred and thirty-eight megawatts. Later that  
23    month, we had a forecast to even beat that and hit  
24    twenty-six thousand about the last week of January,  
25    but that did not happen. We were close to that. The

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2 prior record was set ten years ago at twenty-five  
3 thousand five hundred and forty-one. Quite frankly,  
4 I didn't think we would ever beat that again and we  
5 went flying past our design peak forecast of  
6 twenty-four thousand seven hundred and nine  
7 megawatts.

8                   While the region, the -- while the  
9 regional -- and you think about these cold snaps,  
10 they extended across the country. These were very  
11 wide, geographically, in nature. We've had cold  
12 snaps before and we've had cold weather in the  
13 Northeast, but as everyone knows, these really  
14 extended across the south and much of the Midwest and  
15 the country. And the sustained nature, these were  
16 not one and two and three day in length cold snaps.  
17 Really, at the end of January, it seemed like it was  
18 about two weeks or eleven days.

19                   But -- but the regional and  
20 sustained nature created tremendous demands on the  
21 gas and electric infrastructure systems. Reliability  
22 was met for millions and, quite frankly, several  
23 millions of -- of retail gas and retail electric  
24 customers consistent with Commissioner Zibelman's  
25 opening remarks.

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2                                   In New York, we still -- generation  
3 fuel diversity, dual fuel capability, and efficient  
4 market signals, all contributed to maintaining  
5 uninterrupted gas and electric supply to New York  
6 customers, in -- both electric and gas customers and  
7 millions of them, and reducing even higher consumer  
8 bills, really as a result of the diversity, the dual  
9 fuel and the market signals.

10                                  Next slide. Raj went through this.  
11 I'll make two points. Again, we -- we hit a new  
12 winter peak after ten years. And when you think  
13 about the -- the initiatives in the efficiency area,  
14 and the initiatives with real-time pricing, you --  
15 you know, you can get to a place where you think you  
16 may not ever hit another peak. But even with those  
17 very good and strong initiatives, we -- we did hit a  
18 new winter peak and just on the heels of six months  
19 ago, hitting a new all-time summer peak. And so --  
20 so this is showing that.

21                                  And the other point I want to make  
22 is New York, for anyone that doesn't know, is still  
23 greatly, by about eight thousand megawatts, a  
24 summer-peaking entity, not a winter-peaking entity.

25                                  I'm -- I'm actually -- this slide

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2    is a -- a set of oil and gas prices and I'll go  
3    through this slowly, in a minute. This was for  
4    December. And I'll just make the quick point for  
5    December, that we had eight days where gas prices  
6    exceeded oil prices, at least on -- on the Tennessee  
7    Pipe and it was pretty close on the rest of the  
8    pipes.

9                   But if we turn the page, we'll go  
10   to the very significant January. This is a busy  
11   slide, so let -- let me do this slowly. The black  
12   horizontal line, at about seventeen dollars, is the  
13   M.M. B.T.U. cost of oil, when oil's at about a  
14   hundred dollars a barrel. The many colored lines are  
15   the different gas prices at different gas trading  
16   points in the northeast. We won't go through the all  
17   the colors, but the significant ones are certainly  
18   the -- the -- the green, which is Tennessee, which  
19   crosses Upstate New York and goes into New England.  
20   And then the -- the Transco Zone Six, which is New  
21   York City.

22                   If you add up the times where the  
23   colored lines go above the -- the black horizontal  
24   line of oil pricing, you get about twenty-two days.  
25   So, the point is there were about twenty-two days out

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2 of thirty-one, where the gas prices were higher than  
3 the oil prices. And so -- so we can turn the slide.  
4 And then if you look at the electric marginal prices  
5 and we pick three points, we picked Western New York  
6 as Zone A, Albany, New York as Zone F, and then New  
7 York City as Zone J, the black line is the Zone A,  
8 Buffalo prices, in Western New York. And the X axis  
9 is two months. It's the month of December and then  
10 the month of January.

11 And you can see that -- that -- I'm  
12 sorry. The -- the solid blue line is Zone F, which  
13 is Albany, and then the wider blue line is New York  
14 City.

15 So, essentially, to the extent that  
16 the two blue lines are top of each other, that  
17 essentially means that the price was about the same  
18 in Albany, as it was New York City. And that -- that  
19 kind of indicates there were not transmission  
20 constraints between the Albany or Eastern New York,  
21 to New York City, whereas where you see gaps between  
22 the black line and the blue lines, that's where there  
23 is an electric price separation between Western New  
24 York and Eastern New York.

25 So, you -- you see the first part

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2 of the separation on the left side of the curve is  
3 middle December when prices first went high and gas  
4 prices went beyond oil prices. And -- and the -- the  
5 question was asked earlier and that's -- this -- this  
6 is related to the Central East Transmission  
7 constraint for about five, or six, or seven days.  
8 And then it would -- it became mild again, prices  
9 went low everywhere for a while, and then it got cold  
10 in January.

11 And you see the separation come  
12 back, really between Western New York and Eastern New  
13 York, bound up for two things. It was -- the  
14 pipeline system was constrained so the marginal price  
15 of gas in Eastern New York was significantly higher  
16 than the marginal price of gas in Western New York.  
17 And on the electric side, the marginal cost of  
18 electricity was higher because of the electric  
19 transmission constraints in the Central East, in  
20 Eastern New York, versus Western New York.

21 So, that then -- just, quite  
22 frankly, it's as simple as where -- where it became  
23 mild for some time periods, they kind of come back to  
24 converging, and then when it -- it got cold again,  
25 then -- then you see -- first of all, in late

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2 January, you see it -- it's very cold and now gas  
3 prices were even higher in late January, than they  
4 were early January, so marginal prices everywhere,  
5 including Buffalo, went up. And then you see the  
6 separation, where there's a -- either a pipeline  
7 basis or an electric basis.

8 This slide, just kind of grounds  
9 the oil and gas price, as -- as -- as grounded for  
10 the last fourteen years. Or said differently, this  
11 is the last fourteen years of oil prices, which are  
12 the darker blue -- dark -- darker -- darker blue  
13 curve and then gas prices, it would be the green  
14 curve.

15 And a couple points I'll make here  
16 is that we still -- that -- this is not new, that we  
17 see a gas price in January. You can go back the last  
18 thirteen years and everywhere you see January on the  
19 X axis, whether it's January '03, January '04,  
20 January '05, January '06, this is not uncommon that  
21 we have a gas price in January.

22 Now, a couple differences or a  
23 couple things I'll point out, prior to the -- the  
24 large Marcellus Shale gas deliveries in about '07 and  
25 '08, you would see, before that time period, gas

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2 prices exceed oil prices in January, maybe not the --  
3 the other eleven months of the year. So that's not  
4 completely uncommon.

5 Since the discovery of the  
6 Marcellus Shale gas, while we still the -- the -- the  
7 gas prices in January, post '06 and '07, you see the  
8 spikes on the right on the lower curve, it still  
9 didn't get as high as oil.

10 This winter now, was unique and  
11 different, in that this January was the first time in  
12 seven years -- not the first time we had a gas spike,  
13 but two things. The first time we had a gas spike  
14 where the gas went back way past oil and then you can  
15 see by the chart, it wasn't a small spike, it was a  
16 gigantic spike.

17 So -- so, when I say we've had gas  
18 spikes before, while they look big at eight to ten to  
19 twelve dollars, to put it in perspective, this past  
20 January we had a spike such that when you average gas  
21 for thirty-one days and you come up with a  
22 twenty-eight-dollar average, that's a very, very high  
23 spike to see on the right, and significantly higher  
24 over oil. So, there were -- they -- they -- clearly,  
25 there were some characteristics different about this

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2 January, this winter, than the last fourteen years.

3 And -- and then of course -- I'm --  
4 yeah, I'm sorry. And then of course, it -- I -- I  
5 hope it's obvious. Really at the point where the  
6 Marcellus and Utica Shale discoveries were made and  
7 the drilling happened and -- and all of this excess  
8 inexpensive gas hit, that's where now, you finally  
9 see a huge separation between gas and oil, starting  
10 at about 2008, whereas the twenty or thirty years  
11 before that, gas just kind of traded at ninety  
12 percent of the oil price, which you can see on a --  
13 the earlier part of the chart. Or, if you took this  
14 to the 1990s and the 1980s, that's what you would  
15 see.

16 So, we really -- you know, this is  
17 just a good thing that the -- the -- the gas is so  
18 much cheaper than oil for the last five or six years,  
19 at least in total. Maybe not last January.

20 Okay. Trying to -- to beat that  
21 yellow light or trying to beat that red light, the  
22 preparation, the I.S.O. did do a lot to prepare for  
23 this winter, so it -- we -- we -- we -- we were not  
24 surprised. We spent a lot of time with fuel surveys,  
25 with generators, talking to them about what kind of

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2    gas service they had. Was it -- was it  
3    interruptible, was it quasi-interruptible, did they  
4    buy capacity releases?

5                                    Spent a lot of time with oil, like  
6    how much starting oil were they -- oil inventory did  
7    they have, a little or a lot, and if they only had a  
8    little, what were their replacement schedules and  
9    plans, with barges and trains and trucks. Put a lot  
10   of work in to that. It turns out, that was time well  
11   spent.

12                                   We always knew for a short duration  
13   cold snap, there's enough inventory onsite, to -- to  
14   keep things in -- in good shape from a reliability  
15   perspective. We always did know if it was a long  
16   sustained cold snap, we'd have to be involved  
17   watching this and -- and maybe helping generators  
18   manage this fuel with -- with bids, or with  
19   reliability commitments. And it turns out there was  
20   a -- a fair amount of that.

21                                   Each day, before the cold snap, we  
22   would get updated fuel inventory and gas nomination  
23   information from the generators. That was helpful  
24   to -- for us to manage reliability and come up with  
25   least-cost solutions.

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2 And -- let's see. And then --  
3 yeah, as I say, the very bottom little bullet, this  
4 is important, toward the end of January, so now I'm  
5 talking about like the third week of January, with  
6 sustained cold snaps and now a forecast for it to  
7 stay cold another whole week, the oil depletion  
8 concerns led to increased I.S.O. efforts to manage  
9 projected unit capability on alternative fuel. So  
10 there was a lot more monitoring and managing  
11 reliability, by picking where other types of fuel  
12 resources were available at higher prices, so we  
13 wouldn't run out of fuel at any of these locations.

14 The -- the next slide, the  
15 operating performance and characteristics in early  
16 January were different than late January. Early  
17 January did seem to be characterized by a -- a  
18 high-level of generator derates. And later on, I'll  
19 talk about that's where we're trying to go with our  
20 market design improvements.

21 On January 6th, we did have a  
22 significant transmission cable trip and lock-out for  
23 a couple of weeks. On January 7th, a very important  
24 connection with Ontario trip, but fortunately came  
25 back at lunch time. I'll talk about the -- the

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2 derates on another slide.

3 And as someone said earlier, we did  
4 activate demand response on January 7th, which was  
5 our peak winter day. We did do public appeals early  
6 in January and -- and issued a NERC emergency alert,  
7 one on January 7th, when we were very close to  
8 meeting reserve requirements.

9 Then the next slide is talking  
10 about the second half of January, which with a  
11 talking point, I'd say was more -- the -- the  
12 generator-outages or derates were not significant.  
13 But -- but with these longer sustained cold snaps, it  
14 was just tougher monitoring and managing the fuel  
15 and -- and generators were having trouble to keep up  
16 with the oil.

17 And what was interesting is in the  
18 past several many, many, many winters, gas has been  
19 the fuel of choice. Gas has been cheaper than oil.  
20 Generators try to maximize that and our market  
21 systems maximize that for a least-cost solution and  
22 then when there's a gap and the pipes are  
23 constrained, we just meet that with more expensive  
24 oil.

25 This winter was different for

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2 twenty-two days in January in that oil was the fuel  
3 of choice and people -- we were trying to maximize  
4 oil. Our market systems were bringing on oil units.  
5 Generators' preference was to burn oil rather than  
6 gas. And then gas was used to make up the difference  
7 when -- when oil inventory became tight, so it was  
8 just a completely different characteristic in nature.

9 In the interest of time, we'll --  
10 we'll go to the next slide. This is, quickly, the  
11 generator derates. These are, as defined, relative  
12 to after we made commitments for generators for the  
13 next day, to what the derates were in real-time  
14 operation, not to be confused with what was the  
15 amount of capacity that may be bid in the day ahead  
16 market and was not accepted. And there was a lot of  
17 generation committed that at -- a lot of gas units  
18 that would be at high gas prices, but our market  
19 systems chose the cheaper oil, bought on the oil, we  
20 met low with oil and reliability with oil and -- and  
21 actually didn't schedule gas.

22 But not counting the set that --  
23 that wasn't even scheduled, this is the amount of  
24 derates that then were committed and then didn't make  
25 it.

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2 Okay. I've got sixty seconds. Let  
3 me see.

4 I'll -- I do want to get the next  
5 steps. I do want to get the next steps.

6 CHAIR ZIBELMAN: Yeah. Yeah. We  
7 will -- we'll -- special dispensation.

8 MR. YEOMANS: Okay. All right.  
9 Well, if I'm not going to be electrocuted --

10 CHAIR ZIBELMAN: We're running on  
11 time.

12 MR. YEOMANS: -- let me -- all  
13 right.

14 So, slide twelve, observations,  
15 these are the -- these are important. I said that.  
16 This winter was characterized of many days of gas  
17 exceeding oil prices. And people ask me, Wes, were  
18 the generators able to get gas, and I, you know, for  
19 the dual fuel and I'd say well, I don't know, I don't  
20 think they were trying that hard.

21 If they had oil capability and dual  
22 fuel, they weren't trying to get expensive  
23 eighty-dollar gas. They were trying to burn their  
24 seventeen-dollar oil. And that made sense for  
25 customers, it made sense for reliability, and made

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2 sense for the market systems.

3 And so, it resulted in high levels  
4 of the market system's economic scheduling and  
5 dispatch of oil-fired generators. As an example, the  
6 load weighted L.B.M.P.s for January, across New York  
7 State, were a hundred and eighty-three dollars a  
8 megawatt or eighteen cents a kilowatt. That was a  
9 hundred and seventy-six percent over the December  
10 electric prices, which were high.

11 But if you look at the gas prices,  
12 on average for the month, it could be -- Transco Zone  
13 Six, but it could be anything. It could be  
14 Tennessee; it could Algonquin. It -- they were all  
15 the same.

16 That was twenty-seven dollars. So,  
17 I mean, that's -- that's just a high gas price on a  
18 cold day. This was the average for the month of  
19 January, twenty-seven. And -- and so there's the  
20 average of the sixties and the eighties and one  
21 hundred, with a bunch of days at five and ten, still  
22 a very high average gas price.

23 So the gas prices were four hundred  
24 percent higher in January than December, but  
25 mercifully, the electric prices were less than half

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2   of that increase. Electric prices increased at less  
3   than half the natural gas prices.

4                                   Okay. Next slide, dual fuel  
5   observations for cold days, for short-duration cold  
6   days, so this would be a two or three-day cold snap,  
7   oil-fire generation was capable of receiving  
8   deliveries on a rate close to their burn rate or at  
9   least have enough starting inventory, even a small  
10  number at that. So, short duration cold weather  
11  events were fine. For longer, like two weeks or  
12  eleven days sustained cold, there were instances  
13  where delivery rates for oil could not keep with oil  
14  burns and for many days, oil was economic relative to  
15  gas. So, it's just the economic systems were running  
16  at full load and that was just a -- a -- a -- a  
17  difference in past Januarys.

18                                  Now, on to next steps, there's  
19  three categories of next steps. We have our -- a  
20  category of -- of improved coordination, our category  
21  of market design, and our category of planning and  
22  reliability.

23                                  Under improved coordination, we  
24  want to continue to improve our operator awareness of  
25  the fuel status of all generators and all fuels, in

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2   addition to the approved awareness of pipeline  
3   conditions. The better our information is for  
4   reliability, the better and the least cost solutions  
5   we can come up with for managing reliability. So,  
6   it's just a matter of getting the best information,  
7   then we can make the best least cost solutions.

8                   Continue the seasonal fuel  
9   assessment, improve the daily fuel monitoring, and  
10   then the -- the FERC is helping us with an order,  
11   last November, that really helps solve some of the  
12   confidential issues between the gas and electric  
13   industries, trading valuable reliability data.

14                  The next bullet, request that  
15   O.F.O.s, or operational flow orders, are posted  
16   before the day ahead postings. The better  
17   information the gas generators can get, the better  
18   information they can get in their bid curves, the  
19   better their -- the more accurate their costs are on  
20   the bid curves, the better our day ahead marginal  
21   electric prices get -- can be or our market results.

22                  Coordinate electric and gas  
23   infrastructure, maintenance outages. At this point  
24   in time, it's very important. We don't have a  
25   significant gas pipeline maintenance outage at the

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2    same time as a significant electric transmission  
3    outage, so we're getting much better at working with  
4    the gas industry and coordinating these and not  
5    having two critical outages at the same time.

6                                   We're working with industry to  
7    develop gas balancing improvement and -- and a lot of  
8    this is going on with the recent FERC NOPR. And then  
9    promote R.T.O.-like services in the gas industry, in  
10   the areas of improved gas transportation service  
11   transparency, so that generators can see what is  
12   available on the pipes, and what are the different  
13   ways they could schedule to get gas in a more  
14   transparent way, and what -- anything that can be  
15   done to make the gas apply more liquid. It is a very  
16   large bilateral market today. There are some trading  
17   platforms, but we greatly support and promote  
18   anything that can be done to get the gas supply to be  
19   more liquid for the New York generators.

20                                  Next slide, markets explore  
21   potential market rule changes, to better value fuel  
22   assurance. The two areas of concerns we have are  
23   significant generator derates, as we saw in early  
24   January, and then limited fuel supplies during long,  
25   sustained cold periods.

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2                                   So, we're looking at just tweaks to  
3   our market design that better value the good  
4   performance and less value the poor performance. And  
5   in the long run, this should have a good -- a lower  
6   cost out -- outcome for customers, if we can really  
7   just keep -- keep the good units -- encourage those  
8   to stay online and perform. And it just ends up in  
9   a -- in a better market result.

10                                The next bullet, consider  
11   improvements to allow generators to more accurately  
12   reflect their fuel supply constraints in the day  
13   ahead bids because the day ahead market just has a  
14   better opportunity to come up with a least cost  
15   solution than if you give that bad information and  
16   then have to solve it in real time.

17                                And then the third bullet,  
18   coordinate with P.J.M. and I.S.O. New England, if  
19   either R.T.O. considers modifications to their energy  
20   bid cap offers.

21                                And then the last slide, and I'm  
22   sorry I went over, in the areas of planning and  
23   reliability, and I -- I -- I -- I think Commissioner  
24   Brown mentioned this, this is probably the most  
25   important thing. And that is really, what's going to

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2 happen at P.J.M. over the next couple of years.

3 What's going to happen in MISO the next couple years?

4 It's definite that Vermont Yankee  
5 and Nuclear Facility in New England is going to be  
6 off-line December 1st of this year. They have  
7 another five hundred megawatts of -- of non-gas in  
8 New England retiring, so they have another twelve  
9 hundred megawatt gap just to the east of New York.  
10 And so those things are definite. But -- but even  
11 the -- the -- the E.P.A. mercury MATS emissions  
12 requirements will hit May 1st of 2015. And that  
13 could have a seven to nine thousand megawatt impact  
14 on coal retirements in P.J.M.

15 So, as -- as Commissioner Brown  
16 mentioned, it's important we do this regional study  
17 and not just look at New York and say what are the  
18 implications of the regional changes. And because if  
19 seven thousand megawatts of new gas-fired generators  
20 in P.J.M. are going to compete with the -- that  
21 scarce gas pipeline transportation system, that will  
22 have implications in New York.

23 And so, I think with that, I'll --  
24 I'll conclude and I think there'll be questions  
25 later.

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2 Sorry I went over.

3 CHAIR ZIBELMAN: Thank you. Thank  
4 you.

5 And then our next speaker is Mr.  
6 Wesley from NYSERDA. Thank you and welcome.

7 MR. WESLEY: Thank you very much.  
8 NYSERDA appreciates the opportunity to address the  
9 Commission.

10 NYSERDA monitors heating fuel  
11 supply dynamics on a continuous basis throughout  
12 the -- the winter season. Specific to this  
13 application with natural gas, is the distillate fuel  
14 family, which includes ultra-low sulfur diesel fuel,  
15 heating oil. New York is the only state in the  
16 country using ultra-low sulfur fuel. That's a  
17 fifteen part per million fuel, ultra-low sulfur  
18 kerosene, and then the residual fuel family, number  
19 six fuel often referred to, various sulfur contents.  
20 I will discuss the interaction of the petroleum  
21 supply industry with the natural gas industry, as a  
22 back-up fuel supporting natural gas interruptions.

23 This first slide you're looking at  
24 is distillate demand and it shows the historical  
25 perspective to -- to frame where we are today. Fifty

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2 years of -- of data on that slide, you can see that  
3 we peaked on a -- in the whole distillate fuel family  
4 for all the economic sectors, peaked in 1973. The  
5 most recent data we have is 2012 and it's about fifty  
6 percent down from that time period.

7 More importantly, in the  
8 residential sector, and that's the -- the light blue  
9 sector you see there, demand has come down about  
10 sixty-five percent. The net effect of all of this is  
11 a reduction in the amount of the industry, storage  
12 facilities, pipeline facilities, trucking capacity,  
13 distribution equipment used to distribute the fuel  
14 from where we were so many years ago. Next slide.

15 Similarly, in residual fuel, you're  
16 looking at, again, a fifty-year timeframe here. Back  
17 in '72 in New York, the electric system had quite a  
18 number of large capacity residual fuel burning  
19 facilities. In '73, we peaked at a hundred and  
20 sixty-nine million barrels. We're down like  
21 ninety-one percent from that time period to where we  
22 are today.

23 The green area you see on that  
24 slide is the electric sector. One of the -- one of  
25 the take-aways from this particular slide is what is

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2    the petroleum industry, the supply industry thinking,  
3    as they look at this type of slide. And they're  
4    thinking this is a business that's going away, I have  
5    no reason to invest in the facilities to store fuels  
6    that no one is really using.

7                                   And lack of steady, consistent  
8    demand tells the big supply industry, there's no  
9    reason to commit facilities for this, there's no  
10   reason for me to stockpile inventories. Someone  
11   comes and has a contract and say I will need a  
12   specific amount of fuel, that's fine. I'll dedicate  
13   fuel capacity to this, storage capacity. But if it's  
14   a just maybe we'll show up and maybe we won't show  
15   up, this is not going to happen. And you can just  
16   see the enormous decline in -- in demand for the  
17   residual fuels. Next slide.

18                                  Taking a -- a little bit closer  
19   look at this, these are the -- these -- these two  
20   slides show the petroleum fuels used by the electric  
21   sector. The red is the -- the distillate family,  
22   home heating oil perhaps, ultra-low sulfur kerosene,  
23   ultra-lower sulfur diesel fuels.

24                                  You have a fifty-year slide on your  
25   left. If you move over to the right slide, I've

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2 taken the same and just took a look at that quick  
3 little, last twelve years. The peak occurs in 2005,  
4 which is actually a hurricane impact year. That's  
5 the year that hurricanes came ashore, tore up the  
6 Gulf Coast gas distribution and processing systems.  
7 And the -- we used a lot of residual fuel in the fall  
8 of that year as we waited for the gas distribution  
9 and supply systems to recover. But you can see, over  
10 the last three or four years, there's just been no  
11 demand, at all, by the electric sector. Next slide.

12 Refining capacity in the northeast,  
13 this is a cluster of refineries just south of us.  
14 They're in New Jersey, they're in Delaware, and  
15 they're in Pennsylvania. Again, this is going away.  
16 It's not economic, for a number of refineries to  
17 operate. They've closed. I can think of three in  
18 the last roughly twelve years that closed and went  
19 away. So, our capacity to produce refined products  
20 moved from one point seven million barrels a day,  
21 down to one point three million barrels a day.

22 These refineries are concentrating  
23 on gasoline and diesel fuel. That's where the money  
24 is. That's where the three hundred and sixty-five  
25 day a year demand is. This is what they work on.

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2 Replacing these facilities, when  
3 these refineries are taken out of service, their  
4 parts are sold or cannibalized or whatever occurs to  
5 them, they have been turned into import terminals.  
6 The tankage is still there in many applications, but  
7 they don't have the ability to manufacture the  
8 fuel -- make as much of the fuel that we use, so as a  
9 result, our fuel is coming ever farther away, United  
10 States Gulf Coast and from European or world markets.  
11 Next slide.

12 This slide illustrates this.  
13 You're at -- you're looking at where does our fuel  
14 come from. The blue on the bottom is the east coast  
15 production, the red are imports, and the green is  
16 from other pads. And generally what I'm referring to  
17 there is the Gulf of Mexico production area.

18 And -- and you can see, let me  
19 catch up with you, that we're down to about one-third  
20 of our supply that we use for distillate fuel oil,  
21 all those heating oils and kerosenes is coming from  
22 our local markets. We have less response capacity,  
23 locally, than we had a number of years ago.  
24 We are dependent on economic signals to world  
25 markets, the Gulf Coast, to bring fuel to us, as

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2        needed. So, when there's a serious increase in  
3        demand, as a result of cold temperatures, then that  
4        effect is the market says, with price signals, we  
5        need more fuel.

6                                    Unfortunately, this fuel is three  
7        to four weeks away. This is the time period it takes  
8        to secure capacity, to bring fuels back to the  
9        northeast. So, we've lost some resiliency here.  
10       We've lost the ability to respond rapidly to  
11       immediate needs.

12                                    Again, here's your picture of  
13        historic distillate inventories. We're looking at  
14        from 1998 through the current year. The color  
15        sequence you see is -- the green is home heating oil,  
16        high-sulfur fuels.

17                                    The red is a five hundred part per  
18        million diesel fuel, which is what the transportation  
19        sector would have been using during those time  
20        periods. Regulations pushed that down to fifteen  
21        part per million, that's the blue. You can see when  
22        that occurred. What is that -- what you're actually  
23        seeing here is that red -- that initial red is the  
24        on-road diesel fuel that we would have been using.

25                                    What I'm trying to say here is if

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2 you draw a line for just pure diesel transportation  
3 need, it's about ten million barrels. You draw that  
4 across, there was almost nothing in storage, a very  
5 limited amount of storage capacity, in -- in January  
6 2014, early December, that type of time period,  
7 compared to what we had many, many -- as recently as  
8 two years previous. Next slide, please.

9 This chart illustrates all of this.  
10 On the left, you have twelve months leading up into,  
11 you know, the winter season. And you can see that we  
12 are forty-five -- excuse me -- forty-three percent  
13 below the five-year average on inventories ready to  
14 go during -- during a winter. This is what the  
15 industry was doing. It wasn't getting an economic  
16 signal to store more fuel.

17 The chart on the right shows that  
18 leading into the season, it's August and September,  
19 we actually had pretty good volumes of fuel. But  
20 again, the economic signal was future prices were  
21 more costly than the fuel I had in inventory, so as  
22 we entered the heating season, the economic signal  
23 was use the fuel in storage. And we did.

24 And then, when the cold weather  
25 hit, that Wes was referring to, our inventories

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2 really were in no good shape to handle this. You  
3 couple that with regular consumers, the normal  
4 customers for the heating oil world, increasing their  
5 demand because it's cold, you have gas interruptions  
6 at the temperature controlled level, you have  
7 economic viability activity by the electric sector,  
8 everybody's just pounding on -- on inventories. Next  
9 slide.

10 Residual fuel, try to catch up with  
11 this. This is the refinery output of residual fuel  
12 in the northeast. It's gone from roughly two hundred  
13 thousand barrels a day, as recently as maybe  
14 ninety-eight, down to fifty-seven thousand barrels a  
15 day. There's just not any residual production of any  
16 magnitude occurring on the east coast.

17 One of the problems with these data  
18 sets, we can't tell you the sulfur content of what  
19 the fuel coming out of these refineries are. I don't  
20 know if it's point three, New York State -- excuse  
21 me -- New York City or, as you move away from New  
22 York City, the sulfur limitations increase. It's a  
23 visual we don't know. So, if you have electric gens  
24 in New York City looking for more fuel, I'm not sure  
25 we're producing any of this. Next slide.

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2 Again, this is illustrative of --  
3 just like the heating oil, the -- the -- the residual  
4 inventories were nowhere near where they had been,  
5 over the last ten years. They were just a -- just  
6 significantly lower.

7 And I think I have one more slide.  
8 Nope. That's it.

9 Essentially, what's going on here  
10 is this industry is shrinking, simply because lack of  
11 demand, lack of capacity. Where we were ten -- as  
12 early as -- recently as ten years ago is just so much  
13 less than where we are today. And the ability to  
14 respond to economic activity is just much more  
15 limited than it ever was.

16 CHAIR ZIBELMAN: Thank you.

17 Let me just -- because of the size  
18 of this panel, maybe we'll just ask a couple  
19 questions because I'm concerned that -- by the time  
20 we get through the end of the panel.

21 But Charles, and this is just sort  
22 of what -- what you were just leaving off with and  
23 what you heard Wes say. It's kind of a nice --  
24 Charles Wesley and Wesley Yeomans.

25 MR. WESLEY: We tag team.

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2 CHAIR ZIBELMAN: That's very good.

3 So, would -- would some of the  
4 things that -- that -- that Wes is talking about  
5 of -- about requiring generators to maintain fuel,  
6 would that address some of your concerns about  
7 creating a better demand signal?

8 MR. WESLEY: Yes, it would. The --  
9 the -- there's nothing like having physical capacity,  
10 physical fuel in storage. It allows the market to  
11 digest a little bit better during periods of extreme  
12 demand.

13 You know, we don't practice this  
14 very much. The last time we had significant cold  
15 temperatures, five, six, ten years ago, whatever it  
16 might have been, there's just no economic signal here  
17 to the petroleum supply system, to do anything. It's  
18 like they never call. And -- and they have just such  
19 a limited capacity when it does call. All the  
20 economic signals go out, but the response is a month  
21 away. It's just -- so activity to prepare, have a  
22 storage, would be a beneficial -- a beneficial thing.

23 CHAIR ZIBELMAN: And do you -- you  
24 want to comment, Wes?

25 MR. YEOMANS: Yeah. I'll just

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2   quickly say yeah -- yeah, I can appreciate. I mean,  
3   if you have eleven out of twelve months, gas is  
4   significantly lower than oil, you know, the oil --  
5   the economics aren't there for oil, eleven out of  
6   twelve months of the year. Then one month of the  
7   year the economics are way in there, so that just  
8   makes it tough for the big guys as to how many  
9   refineries they got to have.

10                   Part -- part -- part of the  
11   solution may be -- is, rather than this just-in-time  
12   delivery strategy from the generators, which says  
13   gee, let's not buy and hold a lot of it for ten  
14   months, let's just get on the phone and buy it  
15   quickly in January when we need it. To -- to  
16   Charlie's point, if the refinery capability isn't  
17   there, it's just tough to come up with that, as -- as  
18   opposed to, you know, generators have storage and can  
19   buy a little bit in April, a little bit in May,  
20   little bit in June, as the small number of refineries  
21   can produce it, and then have a significant amount of  
22   inventory going into the winter, that -- that --  
23   that's a -- an approach to try to solve this problem.

24                   CHAIR ZIBELMAN: And my -- my  
25   follow-up question -- and by the way, for the rest of

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2 the panel, this is -- you're talking, if you want to  
3 comment on -- on these, please -- please feel free  
4 because I know these are important issues.

5 You know, I -- I think as  
6 Commissioner Brown noted and -- and -- and as you  
7 noted, Wes, this was a -- not just a New York issue,  
8 this was a national issue, a regional issue. And  
9 it's potentially an issue that's going to get worse  
10 as we see more non-gas retirements and also, just --  
11 just increased pressure then on -- on the pipeline.

12 Here's my -- here's my -- it's  
13 more -- I think it's an observation. It's also a  
14 question. I'd be kind of interested hearing  
15 everyone's response. So, here we are in New York,  
16 requiring the dual fuel capability in the city. You  
17 indicated it's not required in New England. And we  
18 are seeing gas generators coming on. Aren't we in a  
19 potential risk situation of you're going to have more  
20 pipeline demand, but if we, in New York, continue to  
21 look at dual fuel capability from a liability, which  
22 means in a -- in a way, aren't we then backstopping  
23 our regional neighbors who may not require that,  
24 because now we're fighting for gas scarcity? And  
25 we're -- and if we, as you say, monetize the value of

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2 this inventory, we're effectively raising prices in  
3 New York, to provide a better reliability backstop  
4 for New England, P.J. and others; right?

5 Is that -- am I understanding this  
6 right?

7 MR. WESLEY: From -- from a fuel's  
8 perspective, yes.

9 MR. YEOMANS: Yeah. I just want to  
10 understand. I -- I'm not sure requiring some -- some  
11 oil inventory is going to raise prices. Hopefully  
12 then the economic process will --

13 CHAIR ZIBELMAN: Well, but what --

14 MR. YEOMANS: -- then 20:31:03.

15 CHAIR ZIBELMAN: -- I'm saying  
16 is -- is that what will raise prices is that if  
17 there's gas pipeline scarcity and we're able to  
18 maintain -- reduce that pressure because we have dual  
19 fuel units that are being dispatched, essentially our  
20 dual fuel units are supporting P.J.M. and the New  
21 England, as well, who may not have that same  
22 requirement, so therefore, their customers are not  
23 bearing those costs.

24 MR. YEOMANS: Yeah, that may be.  
25 If you think about the market system, when we compare

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2 our price to P.J.M. price for scheduling interchange,  
3 and our price to New England, yeah, I -- I think that  
4 is -- that would be a 20:31:36.

5 CHAIR ZIBELMAN: Okay. And then  
6 we'll have --.

7 MS. BLOODWORTH: Can I -- can I  
8 answer one thing?

9 CHAIR ZIBELMAN: Sure.

10 MS. BLOODWORTH: This is Michelle  
11 Bloodworth, with America's Gas Alliance.

12 I think I'm on. Am I on? Can you  
13 guys hear me? I know you can hear my southern  
14 accent.

15 CHAIR ZIBELMAN: I haven't noticed.

16 MS. BLOODWORTH: Well, I'll try to  
17 tone it down, as my taxi driver told me.

18 One thing, on the flip-side,  
19 though, I would think about is there's a lot of  
20 discussion related to the retirement of -- of older  
21 coal and -- and even some nuclear plants. And  
22 although we support fuel diversity, I would also look  
23 at it as -- as you look at what's needed to build new  
24 infrastructure, to get more firm capacity, to take  
25 advantage of all this prolific natural gas, the more

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2 those units are run, the more it also justifies the  
3 cost.

4 So, I think you need to look at  
5 both sides, the cost of mechanisms and market rules,  
6 within New York ISO, to allow that recovery because  
7 once those units operate more in base load capacity,  
8 you're amortizing that cost for that infrastructure  
9 over a lot more volume, so that cost goes down.

10 I just think you have to look at it  
11 as a portfolio of options versus one versus the  
12 other.

13 CHAIR ZIBELMAN: Sure.

14 MS. BLOODWORTH: Thank you.

15 CHAIR ZIBELMAN: No; I -- I agree.

16 Is there any -- I have to -- we  
17 have --

18 COMMISSIONER BROWN: Just one more  
19 question.

20 CHAIR ZIBELMAN: -- and then I -- I  
21 may have more, but I just feel -- go ahead, Garry.

22 COMMISSIONER BROWN: Just one  
23 question for Charlie, who has gotten really smart  
24 over the last thirty years.

25 Did -- was there ever a time where

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2 somebody couldn't get delivery?

3 You said man it's tight, man the inventories are  
4 slim, man it was really -- we're right on the edge.

5 Were there instances where people said I need it and  
6 they said no can do?

7 MR. YEOMANS: Yeah. This -- this  
8 past winter, some west generators had difficulty  
9 getting the specific quantity at -- and -- and sulfur  
10 content fuel they -- they needed. Okay? And on the  
11 distillate side of the -- of the family, on a -- on a  
12 regular daily basis, I had terminals -- I was in  
13 contact with terminals -- heating oil terminals that  
14 were saying I'm dry, Charlie.

15 Now, they had scheduled another  
16 supply activity, in some way, shape, or form, whether  
17 it was a pipeline delivery that was anticipated  
18 and -- and it would have arrived, or a barge was  
19 coming in, in a couple of days or something. But we  
20 had numerous instances where, in the downstate  
21 market, specifically, home heating oil distribution  
22 companies were short-loading their homeowners.  
23 And -- and maybe you needed two hundred gallons, you  
24 get a hundred gallons and -- and then you're  
25 revisited again later on.

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2 But yeah, this -- this occurred  
3 this past winter.

4 CHAIR ZIBELMAN: And one more for  
5 Wes, because I know I'll forget this. But I  
6 really -- I'm fascinated by, actually, the two slides  
7 of your showing the price increases and Raj's earlier  
8 slide, showing the correlation between the price  
9 changes separation and exports into New England, I  
10 think it would have been at that point, or P.J.M.

11 First of all, when -- when New York  
12 I.S.O., when we do this import/export, typically it  
13 could be because of a price and sometime it's because  
14 what -- in these situations, there could be one of  
15 our neighbors are into a reserve requirement and  
16 there's a NERC requirement, an agreement that when  
17 one -- one region is having problems, the other  
18 region will help them out. And -- and I know that  
19 was going on this -- this past winter. Is that  
20 correct?

21 MR. YEOMANS: It -- yes.

22 CHAIR ZIBELMAN: So -- so --

23 MR. YEOMANS: Yeah.

24 CHAIR ZIBELMAN: -- but how -- are  
25 you looking into -- because it's an interesting

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2   question.  If -- if because of transmission  
3   constraints and in the dispatch protocol, when we  
4   export to New England, if that is a cause of these  
5   price separations, in a way -- is there a way that --  
6   to make sure that the potential costs that are being  
7   imposed on the Capital Region can be recovered by the  
8   Capital Region consumers, who essentially are bearing  
9   the brunt of -- of this type of situation, are there  
10  any market mechanisms to reallocate when you -- when  
11  you have this type of separation, if you can show a  
12  cause and effect?  Because it's a form of mitigation,  
13  in a way.

14                   MR. YEOMANS:  Well, yeah.  Two  
15  comments.  I -- I just would be a little careful of  
16  the cause and effect.  It is --.

17                   CHAIR ZIBELMAN:  Well, that's a --  
18  that was -- yeah, and I don't know, so maybe you want  
19  to --.

20                   MR. YEOMANS:  So, let me start with  
21  that and then I'll move on to the -- the -- the --  
22  whatever that billing question was, but -- or that  
23  allocation question.

24                   You -- you know, I -- so let me  
25  just think about what Raj's chart -- he had one that

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2 said hey, when the -- the exports to New England, the  
3 volume of megawatts increased, it appears the price  
4 difference between A and F increased. It -- it's  
5 hard to know. That may have been happening anyways.  
6 If -- if transmission is scarce from Buffalo to  
7 Albany and pipeline is scarce between Buffalo and  
8 Albany, we -- we're getting that price separation  
9 for -- for a set of reasons that -- that -- that are  
10 correct and make sense.

11 Now -- now, if New England's one  
12 dollar higher, then the -- the market systems are  
13 going to schedule, you know, from low cost to high  
14 cost. So, if New England's one dollar higher than  
15 Albany, you know, you'd start to see the megawatt  
16 exports start to go.

17 It -- it is true that -- that that  
18 starts to look like load from supply and demand  
19 perspective, east of central east, when you're  
20 exporting to New England, that starts to look like  
21 load. But I'm not -- I'm not convinced that's the  
22 large driver to the water price separation, between  
23 Buffalo and Albany.

24 I think we already had that price  
25 separation; it might have increased it a little bit.

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2     But in other words, if you were to cancel those  
3     deliveries of -- and let's say it's a thousand  
4     megawatts, that's a thousand megawatts less than the  
5     east, the -- the marginal price in Albany would drop  
6     a little bit, but I don't think it would come down to  
7     the Buffalo price or it wouldn't be the majority of  
8     that price. But -- I mean, I don't know. Somebody'd  
9     have to go up and study that. So, I'm -- I'm not  
10    positive there's a strong cause and effect.

11                                But the -- the more important point  
12    is, you know, that -- that is how markets work and  
13    that's markets working. And the converse example is  
14    Hydro Quebec and Ontario. I mean, if we have a  
15    higher price than Ontario and -- and we have a higher  
16    price than Quebec, then these market systems that are  
17    working on all four scenes, what -- whatever those  
18    markets are doing between us and New England, they're  
19    doing the same thing, but to our benefit, between  
20    Quebec and New England.

21                                So, if -- if our marginal price is  
22    higher than Quebec, the market systems schedule some  
23    gigantic imports in the -- to New York State, which  
24    reduce prices. And they -- they import from Ontario  
25    on our two sets of connections and that -- that

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2 reduces prices. And if you take, over the course of  
3 the year, the time some areas are scarce and others  
4 aren't and some are long or some are short, and, you  
5 know, one day maybe we're exporting to New England  
6 and it raises an Albany price, there's another day  
7 where we're short and somebody else isn't and it's  
8 coming the other way. And over the course of a year,  
9 or a decade, you know, those four interactions really  
10 come up with a lease cost solution for customers.

11 CHAIR ZIBELMAN: Thank you.

12 Okay. We'll -- we'll move on. Mr. Parisi?

13 COMMISSIONER BURMAN: Actually, I  
14 just have --.

15 CHAIR ZIBELMAN: Thank you.

16 Oh, do you have a question?

17 COMMISSIONER BURMAN: Yes.

18 CHAIR ZIBELMAN: I'm sorry.

19 COMMISSIONER BURMAN: I'm sorry.

20 I -- I've been listening a lot today and I just kind  
21 of wanted to follow up with a question, Mr. Wesley.

22 You made a statement and I just  
23 wanted to make sure I understood it. You said that  
24 the industry was shrinking. And -- and did -- did I  
25 understand right, simply because the lack of demand

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2 or the lack of capacity? Is that what I understood  
3 you to say?

4 MR. WESLEY: The -- the -- the  
5 fuels that we're talking about in this application is  
6 residual fuel and the distillate fuel family. And  
7 yes, that industry is -- is shrinking in size. The  
8 amount of fuel being distributed, running through  
9 their systems, for -- for a -- a great number of  
10 reasons. Consequently, the infrastructure that the  
11 industry uses -- the petroleum supply industry uses  
12 to manage their fuel is -- is much less than it was.

13 COMMISSIONER BURMAN: Uh-huh.

14 MR. WESLEY: And it -- it's  
15 naturally shrinking, also, in -- in lock-step with  
16 demand.

17 However, when you reach a point in  
18 time, where you have -- for some -- in this -- in  
19 this application, it was a number of polar vortexes,  
20 you have a huge spike in demand. Electric sector,  
21 residential sector, commercial demand, it's just  
22 everybody needs these fuels to heat.

23 The industry has lost the capacity,  
24 or is losing the capacity to respond to these spikes,  
25 simply because they don't occur often enough to make

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2    the investments necessary to support that. And we  
3    end up in a situation where you have a reduced  
4    capacity, trying to meet all of this demand. It's an  
5    abnormal amount of demand, but it's still a  
6    legitimate demand.

7                                   How would you manage that? And one  
8    of the aspects you can manage that with is greater  
9    levels of inventory, by whomever the participants are  
10   that need this fuel. There's an economic -- a --  
11   there's an economic penalty there, if -- if they  
12   don't need it, too.

13                                  COMMISSIONER BURMAN: Okay. Thank  
14   you.

15                                  I just would like other folks to  
16   comment on it, during their presentations or, you  
17   know, later with comments just because my question  
18   really is related to, you know, what is the driver of  
19   what else might be causing that lack of demand or  
20   lack of capacity that we, as a state, might be  
21   contributing to.

22                                  And then the second question is you  
23   had made a comment, I believe, that we didn't know  
24   what the sulfur content was. Can you expand upon  
25   that?

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2 MR. WESLEY: Sure. In the residual  
3 fuel family, by itself, there are different sulfur  
4 requirements for different geographic locations in  
5 New York State. In New York City, if you're burning  
6 residual fuel, it's point three percent. As you move  
7 away from New York City, it expands a little bit.

8 The data that we have, and it's  
9 Energy Information Administration data from  
10 Washington, clusters all of the residual reduction,  
11 inventories, imports, just the whole package of  
12 information as one thing, residual fuel. So, you  
13 don't know how much of the fuel you would need, for  
14 example, to assist New York City specific generators.

15 You -- the -- I could tell you the  
16 inventories are five million barrels in the -- in the  
17 mid-Atlantic region. There -- there might literally  
18 be nothing of point three. It might be surpassing  
19 that level. There's just no clarification in the  
20 published data, from E.I.A.

21 The utilities themselves -- or  
22 excuse me -- the generators themselves would know  
23 what they need. And the companies may have that --  
24 the companies have that in -- in their storage tanks,  
25 if they have any, but it's just not published for us,

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2 the analysts, to see that information.

3 MR. ROONEY: Commissioner Burman,  
4 some of the issues and questions that have been  
5 raised here are going to be covered in my  
6 presentation --

7 COMMISSIONER BURMAN: Okay.

8 Thanks. I'm glad I teed it up --

9 MR. ROONEY: -- when we get there.

10 COMMISSIONER BURMAN: -- for you  
11 then. Thank you.

12 CHAIR ZIBELMAN: So, just let me  
13 note something.

14 We have -- it's a quarter to  
15 twelve. We said that this panel would be over at  
16 twelve, but it's not going to be over at twelve. So  
17 I want to make sure that all the panelists have  
18 adequate --

19 COMMISSIONER BROWN: Twelve thirty.

20 CHAIR ZIBELMAN: Twelve-thirty?  
21 Okay. Then we should be good.

22 COMMISSIONER BURMAN: We'll --.

23 CHAIR ZIBELMAN: But just so --  
24 we -- we do want to make sure people have enough  
25 time.

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2 COMMISSIONER BURMAN: Yeah. And --  
3 and I -- just on the sulfur content, because I know  
4 over the years, there have been a lot of concerns  
5 about -- with requirements on lowering the sulfur  
6 content, whether or not the state was actually  
7 harming -- you know, putting ourselves at harm,  
8 economically with that. And so that's why, for me,  
9 this raises an issue. And that's why I'm just  
10 concerned with what have we done. You know, and so  
11 that's why you were saying us not -- I mean, not  
12 knowing what is the -- the sulfur content raised a  
13 red flag to me. So, thanks.

14 CHAIR ZIBELMAN: Thanks,  
15 Commissioner Burman.

16 So we'll move on to Mr. Parisi.  
17 Thank you.

18 MR. PARISI: Thank you for having  
19 me here today.

20 So, my role with Con Edison, we  
21 work in the transmission reliability business, as  
22 well as on distribution end. I'll talk mostly about  
23 the transmission end of it. It goes very much in  
24 line with -- with -- with -- with what NYISO has  
25 mentioned already, also in the oil industry. I think

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2    it'll fill in some of the gaps that the -- the  
3    questions had come about, because we certainly saw  
4    many of these instances firsthand, directly talking  
5    with generating facilities.

6                                   If we could, the first slide?

7                                   Just very quick recap. You know,  
8    so my perspective is looking at Zone J, New York City  
9    area. All of our information comes, basically, you  
10   know, certain -- centered around Central Park.  
11   That's where we take our weather information from.

12                                  I don't want to be redundant, but,  
13   you know, low temperatures -- low temperatures  
14   throughout the winter period, January 7th being  
15   the -- our big day, that was the lowest temperature,  
16   four degrees, lowest since 1896. This winter, we saw  
17   thirteen days with snowfall above one inch and -- but  
18   it doesn't sound like a lot to the people in Albany.  
19   Downstate in New York, anything over one inch is  
20   cause for concern.

21                                  The Department of Sanitation  
22   actually -- in monitoring the data that we get back  
23   from New York City Department of Sanitation, spread  
24   four hundred and fifty-six thousand tons of salt,  
25   which does quite a bit of extensive damage to

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2    infrastructure in New York City, primarily on a  
3    distribution system. So, you know, mostly throughout  
4    the wintertime, we're addressing, you know, concern  
5    with the secondary system, as well as primary  
6    feeders. High salt definitely drives impact.

7                   The winter, 2013-2014, December  
8    not -- not a terrible month. January and February,  
9    that's our big two months with temperatures below  
10   average. Even though -- you know, even when it says  
11   below average of four degrees or three -- three --  
12   three degrees, you know, those are average numbers.  
13   You throw a couple of sixty-degree days in there, and  
14   those stretches where we -- where we were down low,  
15   you know, that sort of makes it look like it's not  
16   quite as bad as it was. But the -- the cold  
17   stretches that we saw were very impactful.

18                   And obviously, you see the snow  
19   totals down below. These are, you know, up there in  
20   the top ten snowiest Januarys -- Januarys and  
21   Februarys that we've had. Next slide.

22                   Winter peak, Wes mentioned it  
23   before. Our -- we hit our winter peak on January  
24   7th, in line with the NYISO's winter peak and  
25   obviously, very far down from our summer peak, but,

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2    you know, there was -- with generation available, not  
3    really, you know, no real forced outages, but the  
4    fuel concern was -- was the biggest battle for us all  
5    winter, during January and February.

6                                   Overall, the electric system  
7    performed very well, the transmission system and the  
8    distribution system. The equipment breakers and  
9    substation equipment had no significant issues, work  
10   we've done to reduce S.F. six leakage and air  
11   compressor issues, paid dividends very much. We  
12   really had no impact that drove transmission feeder  
13   outages or anything like that. It just -- the  
14   equipment held up very well, through very cold  
15   circumstances.

16                                  We had proactive discussions  
17   throughout the periods with NYISO, as well as our Con  
18   Ed gas control and -- and -- and daily  
19   conversation -- daily communication, even more  
20   than -- more than daily, with our Zone J power  
21   plants. This is very much in line with what our --  
22   our folks at -- what -- what Charles had just  
23   mentioned, as far as the oil industry.

24                                  Dual fuel -- fuel burning  
25   capability was a tremendous asset to us. Within the

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2   city area, primarily -- basically everybody does have  
3   dual fuel burning capability. That made us very  
4   flexible, which was good for a couple of days. When  
5   cold stretches turned into week-long and  
6   two-week-long and month-long stretches, that's where  
7   inventory really began -- started to see the effects.

8                   We also saw, initially -- very  
9   initially, infrequency of use of fuel oil. You know,  
10   the last three winters, you don't -- you don't use  
11   the oil burning capability, nearly as much. Many  
12   facilities took a little bit of a -- because there's  
13   an infrequent evolution to get equipment, you know,  
14   up and going, oil-wise and -- and be more reliable,  
15   you know, a little bit of a learning curve to get  
16   back -- back in the groove of burning oil.

17                   But we did see, barging  
18   limitations, fuel availability limitations, talked to  
19   many generating stations who said that their delivery  
20   was twenty to twenty-five days out. So we were  
21   managing those inventories across our service  
22   territory, quite readily.

23                   We, along with the NYISO,  
24   implemented weather protocols. We closely monitored  
25   predicted weather. We adjusted staffing throughout

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2    our transmission stations, to make sure, for these  
3    long cold stretches, as well as weather impact that  
4    was coming in, that we had people in place that could  
5    respond in the event that anything did open and had  
6    to be put back.

7                                    We restricted scheduled work to  
8    prevent contingencies. We did not -- they were --  
9    when we saw weather coming in, temp -- either  
10   temperature or precipitation, we did cut back on  
11   schedule work that would affect the transmission  
12   system that could lead to congestion or put us in a  
13   contingency situation.

14                                  Obviously, very high natural gas  
15   demand. The generators -- gas deliveries were not  
16   interrupted. They did not -- there weren't days  
17   where they couldn't get gas, but obviously the price,  
18   in many cases, precluded doing that.

19                                  Oil was the more economical fuel  
20   for twenty-seven days. I think that compares almost  
21   in line with what Wes had mentioned. Most of that  
22   was -- I think it was twenty-one days or twenty-two,  
23   fell in January.

24                                  We tracked -- we tracked the fuel  
25   supplies of our -- the generators within our service

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2   territory, very closely. More so than ever in the  
3   past.

4                                   Regular calls daily to  
5   gen-stations, gaging what their fuel burn rate was,  
6   how long they expected to, you know, be available for  
7   the amount that they had, and when their next  
8   delivery was coming. And -- and I know Wes was doing  
9   that, as well, from NYISO. I think -- I think we  
10  drove the generators crazy throughout the period.

11                                  So, we closely, also monitored our  
12  min oil burn requirements, which obviously in January  
13  didn't really matter too much, because they were  
14  already burning oil, but when we get into high gas  
15  volume days, we do -- we do maintain a min oil burn  
16  requirement, so that in the event that there's a -- a  
17  gas loss, immediately we don't have a unit that trips  
18  or, you know, a load rejection of any kind.

19                                  Some G.T.s were unavailable to the  
20  system, either through gas prices just being not able  
21  to be secured, or also oil burning not being able to  
22  be performed.

23                                  The liquid fuel challenges in late  
24  January. So this is where, you know, I think we can  
25  back -- we can support what you've heard before.

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2    We saw -- we saw reports of barges being available  
3    with point three five percent sulfur, which couldn't  
4    be used.    Other generating stations, where they --  
5    they did actually come off and not available the next  
6    day, because there was no fuel on hand.    There was  
7    certainly barging limitations.    We -- we've certainly  
8    seen over the last few years that the amount of oil  
9    usage, as it has declined, the people that are in the  
10   business, the infrastructure that surrounds the  
11   industry, has really diminished along with it,  
12   inventory of tanks, barging availability.

13                                    Some of the new units that are in  
14   our service territory that are, you know, gas  
15   turbines, combined cycle, they just don't have the  
16   oil tank storage on site.    They weren't built that  
17   way.    It was -- it was put to, you know, basically to  
18   have a day or two tank on site, which would get them  
19   through a cold -- you know, a -- a couple days, where  
20   there would be a -- cold weather, but not to the  
21   extent where it would be weeks, which is what we --  
22   which is what we were up against.

23                                    For CECONY, for our own company, we  
24   have the steam system.    I'll just go through that  
25   really quickly.

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2                                   We didn't have any issues with the  
3 steam system alerts or reserves. We had to have very  
4 close coordination on gas. We had our own fuel  
5 concerns that -- primarily though, because we do --  
6 we do burn oil every winter, it -- you know, it's our  
7 regular preseason checks, it's the -- the -- the  
8 plants that were built, you know, previous to the new  
9 generation and some of them that have come up -- that  
10 have come on, on a combined cycle.

11                                  So, the inventory facilities are  
12 there. So it was just a matter of getting the barge  
13 deliveries and keeping up, which -- which we were  
14 able to do. In fact, we were able to also, in -- in  
15 some cases, support and, you know, route some people  
16 to barging facilities that could help out some of the  
17 generators that were looking for fuel. And it's --  
18 so the kind of system -- steam system did very well.

19                                  Along the lines of what we -- what  
20 Wes was talking about, fuel oil inventory, I think,  
21 you know, we could probably benefit by doing more of  
22 it electronically, reporting in, knowing what people  
23 have for us. Some weekly projections, even  
24 demonstrating maybe more so, preseason activities,  
25 demonstrating capability on liquid fuel use, the

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2 ability to auto-swap, which is very important, and  
3 the seasonal fuel supply and available inventory,  
4 which I think Wes has mentioned, you know, better  
5 more reinforcement with -- with securing what people  
6 have on hand and what we can count on and for.

7 That's it.

8 CHAIR ZIBELMAN: Thank you.

9 Ms. Madea, thank you. Welcome.

10 MS. MADEA: Thank you. Appreciate  
11 it.

12 So, just background on energy  
13 first, we have fifty-three thousand megawatts  
14 across --.

15 COMMISSIONER BROWN: Get a little  
16 closer to the mic, please?

17 MS. MADEA: Oh, sorry. How about  
18 this?

19 Fifty-three thousand megawatts  
20 across the country, it's a diverse fuel mix of  
21 renewables and coal, oil, natural gas. And a -- a  
22 lot of that is utility scale and some is small scale  
23 distributed generation, as well. And in addition, we  
24 have a demand-response company that participates in  
25 New York and about three million retail customers

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2    throughout the country.

3                                   In New York specifically, we have  
4    about four thousand megawatts. Two of those units  
5    are dual fuel units and one of those is a sixteen  
6    hundred megawatt oil facility.

7                                   Overall, the winter -- our --  
8    the -- the system worked very well. I think what --  
9    what we've been hearing is that the -- the -- kind of  
10   the cracks in the system that have been pointed out  
11   are that what -- there's a desire for a higher level  
12   of reliability, but that's not what the market's  
13   incenting right now. And so I think that's kind of  
14   the -- the struggles that we've been hearing.

15                                  And the market's working to attract  
16   the least -- the more efficient least cost  
17   generation, but there's needs for fuel diversity and  
18   storage, that to -- to address this risk of  
19   just-in-time delivery. And so, diversity is critical  
20   to keeping the lights on. We heard about the oil  
21   units running and the natural gas curtailments and  
22   high natural gas costs led to the unprecedented run  
23   times for the oil -- for the oil units.

24                                  So, our -- our pre-winter  
25   preparations worked very well. We built up the fuel

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2 inventories. And we had -- were fortunate enough to  
3 have a -- our employees for the -- the regions that  
4 weren't impacted a great deal by the cold snap, to  
5 come out east and help the facilities there. And  
6 that worked really well. And we had senior staff  
7 positioned at all of the plants, as well, too.

8                   And our plants were operating under  
9 what we call our -- our COMA provisions, which is our  
10 conservative operation and maintenance alerts, which  
11 means they can't do any operation or maintenance on  
12 the plants that are likely to cause an impact to the  
13 plant, without senior approval. And none of our New  
14 York units ran out of fuel during the winter --  
15 during the winter snap.

16                   Just some of the numbers for you, I  
17 thought these were interesting. So, overall our  
18 facilities burned over one point one million barrels  
19 of liquid fuel, in January 2014. And that is greater  
20 than the eight thousand barrels in -- that were  
21 burned in all of 2013. And in just looking at New  
22 York, we burned approximately eight point five  
23 million gallons of liquid fuel, at the three units I  
24 mentioned, in -- in January '14, as compared to seven  
25 point five million, in all of 2013 again.

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2                                   And one of the -- one of the  
3 challenges we have was replenishment at our Astoria  
4 facility, in New York City. And in terms of the  
5 truck deliveries, in the cold snap, we had a hundred  
6 sixty-eight trucks of liquid fuel delivered, versus  
7 ninety-two trucks in all of 2013. And so that's one  
8 of the challenges we saw, in just getting the trucks  
9 into that facility.

10                                  So, this is, again, a repeated  
11 theme in terms of infrastructure. So, our -- our  
12 biggest challenges are the infrastructure of the oil  
13 system. And it's the lack of the barges, the lack of  
14 the trucking capacity, availability of the drivers.  
15 And during the cold snap, we were in constant  
16 communication with the states and with the Federal  
17 Department of Transportation, in order to get waivers  
18 of the trucking regulations to get the -- the -- the  
19 trucks into the plants. And we put -- some  
20 out-of-town truckers, put them up in hotels near our  
21 plants, so that they would be available to deliver.

22                                  The -- the one specific situation,  
23 for example, our Oswego facility, it -- now that --  
24 we've talked before about the -- the sulfur  
25 requirements and since those sulfur requirements

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2       dropped, we used to get that oil from Canada and just  
3       barge it down. But they don't have the low-sulfur  
4       fuel that we need and so that has to come from the  
5       east coast.

6                                   What we do is we have to find it  
7       along the east coast, get a -- get a vessel, take it  
8       up to Canada, position it up there, and then get the  
9       smaller vessels to bring it down to Oswego. And this  
10      is a multi-month process that we've been looking at.  
11      And so right now, we're in the process of  
12      replenishing Oswego and, obviously, those barges --  
13      it's now up in Canada, but those barges have other  
14      obligations and so we're now trying to get the  
15      vessels to get it back down.

16                                  But this is what was being said  
17      before, about even if you know you need it, it's  
18      going to take us multiple months to get it at this  
19      point.

20                                  CHAIR ZIBELMAN: Were -- were you  
21      going to -- just so I -- why do you have to go to  
22      Canada to get it back down?

23                                  MS. MADEA: Because of where --  
24      where it's located, it's -- it's in Oswego and so it  
25      has to be barged down. So, the -- so, the only place

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2 you can bring it down from is Canada. If you bring  
3 it up, you can't get it in, essentially.

4 CHAIR ZIBELMAN: I guess I admitted  
5 I'm not a native New Yorker. Okay. Thank you.

6 MS. MADEA: I asked the same  
7 question.

8 COMMISSIONER BROWN: Lake Ontario.

9 MS. MADEA: Yes. So overall,  
10 the -- the oil issues that we've been seeing. So  
11 the -- the fuel cost is high, the inventory --  
12 inventory turnover is low, one of our plants, this  
13 winter, the Bowline facility was burning 2007 oil  
14 that was in its tanks. It's hard for us to predict  
15 the necessary levels of oil that are needed and the  
16 utilization of the oil-fired capacity is really high  
17 during these narrow windows that we've seen.

18 And not all dual fuel units are  
19 created equal. This is something that was touched  
20 upon, too. The modern dual fuel units have the high  
21 environmental permitting requirements and the tight  
22 run-time limitations. And so, as a result, this  
23 storage is sized accordingly. And so those aren't  
24 the units that can support winter periods like this.  
25 And then in terms of the older dual fuel units, while

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2   they have the storage capacity, the issue there is  
3   that they have low capacity factors and so the  
4   system -- the market to support the running of those  
5   facilities has gone away.

6                                   So overall, in terms of kind of  
7   what we can do to create this issue, so just to  
8   highlight what we talked about and what Commissioner  
9   Burman mentioned before is that the -- the current  
10   wholesale electric markets don't support the large  
11   capital investment that's necessary, in order to  
12   develop or retain these large quantities of storage.  
13   And the newly permitted dual fuel units have limited  
14   operating hours on fuel and often even smaller onsite  
15   liquid storage.

16                                  And the fuel diversity that's  
17   needed and the infrastructure for the resupply of  
18   this liquids, is no longer in place. So, while one  
19   example was the I.S.O. New England fuel inventory  
20   program that they did last year, and while it's an  
21   out-of-market solution, it worked in order to get  
22   those storage tanks stocked with oil. And so we --  
23   we need some sort of a market mechanism to allow for  
24   cost recovery, to incent these older units to -- to  
25   keep their inventories up. And it's some sort of --

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2 one thing that we were discussing is some sort of  
3 market product that could encourage the dual fuel  
4 units to continue operation, some sort of a -- an  
5 ancillary service that would offer additional  
6 payments for it.

7 And I think one -- another thing is  
8 that any market design changes that penalize the oil,  
9 or the older dual fuel units, that will work to  
10 counter the incentive to keep these units running.  
11 So, I think that's a -- that's something to be  
12 cognizant of, going forward.

13 And the other thing is, in terms of  
14 just the natural gas package, one thing that would  
15 help is we've talked about this elsewhere a great  
16 deal, is how it trades as a weekend package. If that  
17 package would be split up, it would just help in  
18 terms of -- in terms of pricing.

19 Another thing that was talk --  
20 talked about here, is whether any new pipeline  
21 infrastructure and a -- and transmission, or how  
22 that's going to work. And I think our position on  
23 all that is what -- if we find out there's a need for  
24 something, it should be a competitive process and we  
25 shouldn't automatically go and start building

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2 pipeline, without considering storage and distributed  
3 generation and other possibilities, and see how those  
4 all equate.

5                   So, I think that's -- that's all I  
6 have.

7                   CHAIR ZIBELMAN: Thank you.  
8 Mr. Truxell, welcome.

9                   MR. TRUXWELL: Thank you. I'd like  
10 to thank the Chair and the Commission, for allowing  
11 us to participate today. Thank you.

12                   My intent here is to kind of  
13 provide the interstate pipeline's perspective on this  
14 past winter, our experiences. It was, as you've  
15 heard, a very challenging winter for -- for a lot of  
16 folks, so -- I guess I'll -- I'll start off by, you  
17 know, Transco is a very large -- I'll let the slide  
18 catch up here.

19                   Just a quick overview of the  
20 Transco System. It's a very large and robust,  
21 natural gas pipeline, with a lot of system storage,  
22 almost -- a little over a hundred and ninety B.C.F.  
23 of storage capacity, that -- that's located across  
24 the system. The -- the blue boxes on the slide  
25 indicate where that storage capacity and facilities

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2 are located on the system.

3 Just some highlights, from --  
4 from -- from this past winter, January 7th seems like  
5 a very popular day for peak days. It was Transco's  
6 peak day, an all-time peak day with eleven point nine  
7 million dekatherms delivered in our market area. And  
8 we're defining the market area by -- Transco has --  
9 has seven different rate zones and we're looking at  
10 just Zones Four, Four-A, Five, and Six, so just that  
11 part of our pipeline.

12 There -- there were -- there were  
13 no interruptions and I'd like to really point that  
14 out. No interruptions or constraints of primary firm  
15 capacity, throughout the entire winter period. You  
16 know, that's -- we hear a lot about -- about  
17 constraints and curtailments, but really, when --  
18 when the pipeline or the interstates are talking  
19 about that, we're talking about curtailments or  
20 constraints of non-primary capacity, secondary firm  
21 transportation or interruptible transportation.

22 Deliveries for the period, and  
23 we're looking at December of '13 through March of  
24 '14, averaged one point four million dekatherms a day  
25 greater, on average, than the same period last year,

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2       which is a significant increase. And I think it'll  
3       illustrate that in a slide or two, coming up.

4                   Twenty-four of our top twenty-five  
5       all-time delivery days occurred this winter. The  
6       only day higher was our peak day from 2013. We did  
7       issue -- the pipeline did imbalance operation of flow  
8       orders, really to protect system integrity.

9                   And -- and just a little --  
10      expanding a little bit on what the operational flow  
11      order actually does or at least, in our instances,  
12      essentially we're simply asking shippers, people  
13      moving capacity -- using capacity on our system,  
14      to -- to supply at least ninety-five percent of their  
15      delivery needs. So, there is still some flexibility,  
16      even when we have an operational flow -- flow order  
17      and it really doesn't impact capacity. It's just an  
18      imbalance management tool.

19                  And then, non-ratable deliveries, I  
20      think that was touched on a little bit earlier. They  
21      provide challenges. Most of the production, the  
22      receipts coming into our system are all flowing on a  
23      ratable basis. Where the deliveries leaving our  
24      system, are -- you know, we have a similar peak to  
25      the electric generation. We have a morning peak, we

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2 have an evening peak. So, managing those non-ratable  
3 deliveries are -- are challenging, but we do that  
4 through storage, management of line and other tools  
5 that we have. For -- for the Transco System, we  
6 don't have any -- any limitations on -- on ratability  
7 or how you can take the gas out of our system.

8 Okay. Here's the illustration  
9 about last year or the winter of 2012-2013 versus  
10 '13-14. About one point four million dekatherms a  
11 day increase, on average, for the four-month period.  
12 You know, it was very cold, obviously, but, you know,  
13 we -- we also heard that a lot of generators weren't  
14 even burning fuel during this period. So we still  
15 had a significant increase in -- in demand on our --  
16 our system.

17 I -- I -- illustration of -- of our  
18 peak days, looking at the last several years,  
19 obviously, a steady increase year over year,  
20 primarily the result of expansions on our system.  
21 But you can see, a very significant increase between  
22 '12-13 and '13-14.

23 And -- and the orange line  
24 represents, actually, our contractual capacity on the  
25 system. So, you can see, almost in every year, our

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2   deliveries exceed, by a large amount, this past year,  
3   our -- our contractual capacity. And that's  
4   accomplished mainly through segmentation of -- of  
5   capacity rights and -- and backhaul transportations  
6   where we used displacement to make additional  
7   deliveries.

8                   Going forward, we're projecting  
9   and -- and I'll -- I'll look at a couple of slides on  
10   infrastructure changes that we are proposing and the  
11   market has received very well. You know, we're  
12   proposing or -- or -- or estimating our future  
13   capacity -- contractual capacity is going to grow  
14   significantly in the next three to four years.

15                  A little bit -- a -- a look at  
16   where Transco is in relation to a lot of the major  
17   supply basins, we are very well positioned to take  
18   advantage of -- of really all of the shale -- shale  
19   plays in -- in the mid-continent, in Texas, obviously  
20   Marcellus and Utica. You know, traditionally, most  
21   of our production in the Transco System was off-shore  
22   Gulf Coast. That's still a major player, but -- but  
23   obviously not anywhere near where it was five years  
24   ago.

25                  As I'll -- I'll illustrate coming

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2 up, Transco is in the process of -- of making  
3 change -- system changes to allow us to -- to reach  
4 back to this -- these supply basins, where, you know,  
5 traditionally, we moved gas from the south to the  
6 north. In 2015 and beyond, we are making significant  
7 changes to where we will be a bidirectional mainline  
8 system, where we can access Marcellus, Utica, any  
9 production in the northeast, and -- and provide  
10 transportation as far as south as -- as Alabama, for  
11 that gas.

12 Quickly, I'll take a look at some  
13 of the -- the infrastructure projects we are -- or  
14 have proposed. The first one is actually -- was  
15 placed into service, prior to this past winter. The  
16 Northeast Supply Link Project, it brought increased  
17 incremental capacity of two hundred and fifty million  
18 dekatherms a day, two hundred million of that into  
19 New York City -- capacity into New York City, placed  
20 into service last fall.

21 Northeast Connector and Rockaway,  
22 it's a one hundred million a day expansion from our  
23 Station 195, into, effectively, National Grid's  
24 territory in -- in New York City, with the -- the  
25 major piece of this being the Rockaway Lateral. It's

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2   a three-mile -- a little over three-mile lateral from  
3   our offshore connection. And it -- it will come on  
4   shore, on the Rockaways and provide, essentially, new  
5   gas service into National Grid's Brooklyn and Queens  
6   area.

7                                   And just for the -- for the record,  
8   we actually received FERC -- our certification from  
9   FERC on that project, this past Friday. So, we're  
10  full steam ahead on construction there.

11                                  Constitution, I'm sure it's  
12  probably been a very big topic for many, many  
13  different reasons. It is a proposed pipeline,  
14  interstate pipeline that's going to connect Marcellus  
15  gathering and provide six hundred and fifty million  
16  cubic -- or dekatherms a day of capacity, into  
17  Tennessee and Iroquois at the Iroquois Right  
18  Compressor Station.

19                                  Right now, we're looking at a  
20  target in-service date in late '15, early '16. We're  
21  still -- obvious -- obviously, going through the  
22  approval process on this project.

23                                  This is one of the projects I  
24  mentioned that is going to essentially make the  
25  Transco pipeline bidirectional, providing supply from

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2 really any location along the way, specifically  
3 the -- specifically Marcellus in this case, at five  
4 hundred and twenty-five million a day of firm  
5 capacity, with a contract path from our Zone Six, all  
6 the way down to our Zone Four, but you'll have  
7 delivery rights anywhere along that contract path.

8 And I think this may be the -- the  
9 last project I -- I mention. Again, just recently  
10 announced, but we do have market commitment for this  
11 project, a very large project, one point seven  
12 million dekatherms a day. Again, it's from the same  
13 supply areas. This one's a little different, where  
14 we have some new green-field construction that will  
15 intersect with our mainline Near Station 195. But  
16 essentially it has a path again, all the way back to  
17 our Zone Four, but it -- it's also going to provide a  
18 brand new market supply at our Station 195. And that  
19 gas will have secondary rights, anywhere in our Zone  
20 Six.

21 I'm not sure if that's the last one  
22 or not. It is? Okay.

23 I -- I guess just a couple of  
24 notes, just for the record. You know, we've  
25 talked -- heard a lot about pricing today. The

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2 interstate pipelines, as I'm sure the Commission is  
3 well aware, we do not set the commodity price on --  
4 on -- on pipelines, or on the -- the commodity  
5 delivered. We -- we're in the transportation  
6 business. We -- we are regulated on our -- our  
7 rates, so commodity pricing is something that we do  
8 not set.

9 Something that Wes touched on, we  
10 are very involved in Order 787, the communications  
11 between electric generators, operators, and -- and  
12 the transmission -- gas transmission providers, so --  
13 and I think we've made a lot of progress there.  
14 We -- I think we have a long ways to go, but we  
15 are -- we're talking, which is probably the -- the  
16 first step, so I -- I think we're -- we're well on  
17 our way to -- to kind of closing some of those  
18 communication gaps that we've had in the past.

19 Thank you.

20 CHAIR ZIBELMAN: Thank you.

21 Ms. Bloodworth, welcome.

22 MS. BLOODWORTH: Well, thank you.

23 Chairman Zibelman and Commissioners, America's  
24 Natural Gas Alliance certainly appreciates the  
25 opportunity to speak from a producer perspective. We

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2    agree with you. We do share the concern over the  
3    rapid price increases. Obviously not only for New  
4    York, but just the economy as a whole.

5                                    I very much appreciate your  
6    diligence and the Commission's diligence in this  
7    workshop and the inquiry. What we hope is it  
8    certainly will last, not just short term, but more  
9    long lasting solutions, but we definitely hope that  
10   one of those is focused on how we can get more  
11   infrastructure, to really take advantage of -- of the  
12   shale gas that is now available.

13                                  For those of you who may not be  
14   familiar with America's Natural Gas Alliance, we do  
15   represent the leading independent natural gas  
16   producers in North America. Collectively, our  
17   members represent one-third of all the natural gas  
18   production in the U.S., which is about eight T.C.F.  
19   per year, so an important group to the natural gas  
20   supply picture.

21                                  Our association is fairly unique.  
22   We're really focused on state, federal and regional  
23   policies, but we're more focused on the market. And  
24   by that, I mean our overall goal is to increase the  
25   demand for natural gas.

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2 I never can make a presentation  
3 without showing the shale -- kind of the shale map.  
4 These are all the shale plays in the U.S. The reason  
5 why this map is important, because these shale plays,  
6 every time I show this map, we're adding a new one  
7 because of the economic opportunity or the potential  
8 for that basin to be developed. Natural gas is now  
9 produced in thirty-two states.

10 But I think what is important from  
11 this slide is when I think about the emergence of the  
12 Marcellus and all of the shale basins. I've been in  
13 the natural gas industry for almost twenty-five  
14 years. The shale gas revolution has virtually  
15 happened in the blink of an eye. And so, as we all  
16 try to adapt to this prolific resource and the  
17 economic and environmental opportunity that it  
18 presents, it certainly, even as I look at my role,  
19 which is more focused on power generation, our  
20 industries certainly are now working together more  
21 collectively to really understand both the challenges  
22 and the opportunities.

23 And I think the polar vortex, I  
24 really want to, you know, give a hats off to New York  
25 ISO and many of the I.S.O.s that we work with

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2 throughout the country, because the natural gas  
3 industry and the electric industry, from a  
4 communications perspective, really did make great  
5 strides. And I think that's why you didn't see any  
6 blackouts. And those that subscribed for firm  
7 capacity received that firm capacity.

8                   But we're still learning. And I  
9 think that, you know, it's sometimes hard to  
10 recognize just how quickly this paradigm revolution  
11 has occurred.

12                   As it relates, when we think about  
13 the shale gas industry, just very quickly, certainly  
14 it is a huge economic driver. By 2035, the shale gas  
15 industry will represent four hundred and seventy-five  
16 billion dollars to this nation's economy. It will  
17 have created three point five million jobs.  
18 Something important for all of us.

19                   But the last takeaway on this slide  
20 is if there's any uncertainty about the supply and  
21 the size of this resource, if anything, it is on the  
22 upside. And I'm going to share with you in a minute,  
23 as we look at just a twenty-four percent increase by  
24 the potential gas committee and the size of the  
25 resource, but just in two years because the

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2 technology that the members that I represent are  
3 deploying, it is getting better and better, meaning  
4 they're able to more and more gas, more efficiently.

5 The good news is you look at the  
6 northeast and where you are situated, when we look  
7 at, you know, where kind of the largest emerging  
8 shale plays, obviously, certainly the Marcellus and  
9 the Utica. With the Utica only being in its infancy,  
10 we have yet to develop the full potential of the  
11 Utica.

12 But half of the natural gas  
13 production is going to come from this region. So,  
14 you're certainly well situated and close, at least,  
15 to the supply basins. We know we have to get some  
16 more pipeline infrastructure.

17 And one of the reasons why Richard  
18 talked about your seeing movement of the northeast  
19 gas to the southeast, because as we look at the  
20 production potential, there is not enough demand in  
21 the northeast. So, by 2017, you're going to see,  
22 eighty percent of the time, supply from the  
23 northeast, beginning to go to the south and other  
24 markets who don't have, maybe, access to such robust  
25 supply or -- or basically, because the demand in the

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2       south is growing at such a fast pace.

3                                   We recently did a study with  
4       Bentek, which is one of the leading energy analysis  
5       in the U.S., just really looking at what is it going  
6       to take to see high-case scenario of production in  
7       the northeast. As you look at this slide, right now  
8       in the Marcellus, there are about seventy-five rigs.  
9       But the rig count -- now, we don't use rig count to  
10      measure how much production. And that is because  
11      of -- we're able to drill wells two to three times  
12      more quickly.

13                                  We're able to bring gas more  
14      quickly, to the market. Many of our members, where  
15      it took them thirty days to complete a well, now it  
16      may take them only two days. The horizontal  
17      laterals, their ability to extend underneath the  
18      ground, is getting longer and longer, which means  
19      more and more gas.

20                                  So, when I ask my producers what  
21      keeps them up at night, it's having more of a demand  
22      market is what they worry about. It's not enough  
23      demand to keep that healthy supply growing and -- and  
24      moving forward.

25                                  We are seeing, as Richard

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2 mentioned, though, a lot of new infrastructure being  
3 invested. Because if you're a producer and you have  
4 billions of dollars in the ground, that's an asset  
5 you want to make sure that you can move to market, so  
6 a big change is more producer push pipelines, where  
7 they're trying to build pipelines to get them to the  
8 liquid trading points. Next slide.

9 So, Richard touched upon many of  
10 those. Certainly, when we look at the northeast, the  
11 natural gas industry is really striving to move  
12 forward with these infrastructure projects to meet  
13 the growing demand. There is substantial growth in  
14 natural gas supplies within the Marcellus basin, on  
15 the board of the northeast region, both New York, New  
16 Jersey, and New England. But even so, there  
17 certainly is the need for further infrastructure  
18 investments.

19 And the big question is how do we  
20 pay for that. I don't really think there's a  
21 one-size-fits-all solution. I think it's going to be  
22 a combination of both state and federal rules, within  
23 the I.S.O. R.T.O., creative mechanisms, that maybe  
24 are looked at from a state perspective.

25 There's a lot of proposals, I'm

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2    sure you guys are aware, from a New England  
3    pay-for-performance, to a NESCO governor's proposal,  
4    all designed to try to take advantage of this  
5    masses -- massive resource and get it to market.

6                                    But when you look at expansion,  
7    overall, capital that's been made in the U.S., the  
8    good news is between '013 to 2015, fifty-seven  
9    percent of all the investment in pipelines, is going  
10   to occur in the northeast. In the next three years,  
11   these are all of the projects. Some of those are  
12   backed by L.D.C.s, some of those are what I  
13   mentioned, more of our members, the Williams  
14   Constitution is two of our members, Cabot and  
15   Southwestern Energy, are really investing in that  
16   pipeline, because they do want to bring natural gas  
17   to the State of New York. We call that more of a  
18   producer push pipeline.

19                                    The Spectra, New Jersey/New York,  
20   pipeline is really a supply push and a market pull,  
21   where you have a combination of producers investing  
22   in part of the pipeline and then you have customers  
23   like Con Ed, who are really pulling that demand, who  
24   are making the other investment, to justify the  
25   economics to make it move forward.

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2 There certainly are constraints,  
3 though, in the northeast -- I mean, the eastern part  
4 of New York and New Jersey, which is really why you  
5 saw these huge price -- price spikes and why you  
6 didn't see them in Birmingham, Alabama, is because in  
7 the southeast region, we do have a significant amount  
8 of firm transportation and storage, certainly a  
9 different regulatory mechanism.

10 I'm not advocating for regulating.  
11 I think either market can work, either way, organized  
12 or regulated, if the right rules are in place.

13 I think we've already all agreed  
14 that it certainly was a cold winter. And so, as we  
15 look at market solutions moving forward, I do think,  
16 though, we need to recognize, at least, the good  
17 news, that when we looked at the overall requirements  
18 for natural gas demand, supply certainly was there.

19 Just looking at it from a pure  
20 natural gas perspective in the U.S., you can see that  
21 the winter's peak demand, as we look at what was the  
22 average peak demand over the United States, for  
23 natural gas, over the past five years, we basically  
24 had to produce or deliver twenty-one -- twenty-one  
25 B.C.F. per day. It was an eighteen percent increase

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2    over the five-year average. We did exceed the  
3    highest demand seen in the last ten years, by fifteen  
4    B.C.F. per day, or twelve percent. And in all, six  
5    days exceeded the highest level in the past ten  
6    years. But again, showing you, the supply certainly  
7    was able to get to the market.

8                   I'm going to skip this slide, just  
9    because I think we've talked enough about how cold  
10   the weather was. I think we pretty much all  
11   recognize that.

12                  All right. So, we -- as we look at  
13   prices, really from different regions, looking at  
14   these liquid trading points and how prices, because  
15   of down-stream constraints, really were elevated,  
16   mostly, as you look at this chart, the blue line,  
17   which you really can't see, which is Henry Hub,  
18   really didn't see a lot of price volatility like we  
19   did at some of the -- the New York more trading  
20   points, Algonquin and also Transco Zone Six. But you  
21   look at -- even though the northeast, we typically  
22   always see price spikes.

23                  Obviously, with supply and demand,  
24   the market is going to send that signal. And when  
25   supply -- when demand goes up, prices are always

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2   going to go up. But the reason we really saw the  
3   extreme prices, the hundred and twenty dollars, the  
4   hundred dollars, is not because there is not supply,  
5   but basically, we couldn't move that gas to get it to  
6   the load centers where it was needed, because we  
7   didn't have the adequate infrastructure. And that's  
8   when you're going to see the huge price spike.

9                                   Lots of discussion about basis  
10   blowout. I think it's important to look at there was  
11   not a basis blowout as -- as you look at  
12   Pennsylvania. But as far north as Pennsylvania, when  
13   you look at Dominion South, which is a major  
14   indicator of prices in that region, it was very  
15   interesting that on the same day, when the New York  
16   price went to a hundred and twenty dollars, the going  
17   price in western Pennsylvania, was only four dollars  
18   and thirty cents.

19                                  Also, at Tennessee Gas Pipeline,  
20   Zone Four, on the same day, receipts actually were  
21   below the Henry Hub. I had members who were trying  
22   to give away their natural gas because there was so  
23   much of it and it was only at three dollars. And  
24   again, that is so contingent upon having the adequate  
25   pipeline infrastructure in place, which certainly

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2    will get rid of a lot of that volatility that we're  
3    seeing.

4                                    Producers, I think it's also  
5    important to recognize that they're hurt by pipeline  
6    constraints. And that's why you're seeing a lot of  
7    producers really doing these push pipelines, because  
8    once that well starts flowing, the reason why they  
9    have to buy storage is because they're not going to  
10   shut in that well, and it is a very ratable flow.  
11   And so, as demand changes, many of our producers do  
12   have storage assets, really to manage that imbalance,  
13   just like an end user customer would have.

14                                    So, what are the takeaways from  
15   this winter? Supply increases are more than keeping  
16   up with demand. Obviously, not where pipeline  
17   constraints restrict the flow of gas to customers.  
18   Customers with firm supplies, it's just like an  
19   insurance. They certainly paid more, but they didn't  
20   go without gas and even on the coldest days of a very  
21   cold winter.

22                                    Power producers in the northeast  
23   did rely on alternate fuels to make it through. But  
24   wholesale electric -- electricity prices reflected  
25   the scarcity of gas supply and the high price for

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2 fuel oil in eastern New York and New England. So,  
3 until we find a way to free up capacity for power  
4 generators during those peak times, the situation  
5 will only get worse in the coming years.

6 Again, we feel like it's really  
7 going to take a portfolio of options. We are finding  
8 that customers who purchase their gas on a monthly  
9 basis, not totally dependent on spot pricing gas,  
10 obviously fared much better. They may have paid a  
11 premium overall, but again, did not see the  
12 volatility that some customers did, who were buying  
13 gas on the daily market.

14 So, I -- as we look at just the  
15 pipelines that are permitted or in the permitting  
16 process here in the State of New York, we certainly  
17 would encourage the state agencies to work as quickly  
18 as possible, without sacrificing the review of those  
19 projects, so we can move much of that gas supply to  
20 the State of New York.

21 Thank you.

22 CHAIR ZIBELMAN: Thank you.

23 Mr. Rooney, welcome.

24 MR. ROONEY: Madam Chair, Members  
25 of the Commission, good afternoon.

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2       Since it's me, then lunch, I will try to be concise.

3                                   By way of background, the petroleum  
4       industry supplies almost six billion gallons of  
5       petroleum products annually to the downstate region,  
6       about half of which is motor gasoline, while the  
7       remainder is a variety of distillate products and jet  
8       fuel.

9                                   Over the past five years, total  
10      distillate consumption in this region has been on the  
11      order of a little less than three billion gallons a  
12      year. So, on any given day, in January, more than  
13      about twenty million gallons of gasoline and other  
14      petroleum products are moving through the  
15      multi-faceted and highly complex network that makes  
16      up the petroleum supply and distribution system, in  
17      the downstate region.

18                                  Consumption by sector shows that  
19      residential consumption is by far the largest amount,  
20      with commercial, and that includes apartment  
21      buildings in New York City, and on-road diesel, about  
22      the same.

23                                  For a variety of reasons, the  
24      industry supplies petroleum products on an as-needed  
25      basis, which we refer to as just-in-time inventory.

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2    What this means is that there are physical supplies  
3    available, in the distribution chain, equal to about  
4    four to five days of normal demand.

5                                   Over the past two decades, the  
6    nature of the wholesale and terminal operation  
7    segment of our industry has drastically changed, due  
8    to -- one, is a -- a twenty to twenty-five percent  
9    reduction in both commercial and residential heating  
10   oil usage, primarily as a result of aggressive  
11   conservation measures. Secondly, the escalating cost  
12   of environmental compliance. Third, increased  
13   general business and operational costs. And lastly,  
14   the role of the commodities futures market and the  
15   pricing of petroleum products and the potentially  
16   negative impact, which it can have on the value of  
17   physical product storage.

18                                  As a result, there are far less  
19   storage terminals and petroleum storage capacity than  
20   just a decade ago. Thus, the industry's ability to  
21   meet sizable incremental demands from the electric  
22   and interruptible sectors, is clearly constrained  
23   during winter periods of high demand.

24                                  The -- the draft State Energy Plan,  
25   clearly recognizes the important role which the

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2        industry plays in ensuring electric reliability,  
3        noting these distillate fuels are also used by the  
4        electric sector for primary electric generation and  
5        as crucial alternative back-up fuels, helping to  
6        maintain electric reliability, particularly in the  
7        downstate region.

8                                    Over the past two decades  
9        distillate storage capacity has declined by some one  
10       hundred and thirty million gallons, or thirteen point  
11       one percent, while demand has only declined by about  
12       five point eight percent. The draft Energy Plan  
13       recognizes the potentially dire consequences of this  
14       imbalance, noting that there may be less capacity  
15       available, to meet atypical demand surges by the  
16       heating and electric generating sectors, during  
17       periods of colder than normal temperatures. In  
18       effect, consumers are becoming more dependent on the  
19       ability of the petroleum transport industry to  
20       resupply the remaining terminals, during periods of  
21       peak demand.

22                                    As noted earlier, my industry is  
23        structured to deliver about ten million gallons of  
24        distillate products a day, in January, which is  
25        traditionally the highest heating volume demand month

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2   of the year. This past January, what a doozey that  
3   was, we experienced significantly colder than normal  
4   weather and thus demand from the commercial and  
5   commercial-residential, and suburban-residential  
6   sectors, increase by some thirteen percent, or about  
7   nine hundred thousand gallons a day.

8                   In addition to the increased demand  
9   from our oil heating customers, there was also a  
10   cumulative total of thirteen full days of gas supply  
11   curtailments, one of which lasted for a full nine  
12   days, to large volume entities such as electric  
13   generators, government facilities, universities,  
14   schools, hospitals, and commercial establishment,  
15   which purchased gas on an interruptible basis.

16                   From data supplied to us by D.P.S.  
17   Staff, there are four thousand six hundred and  
18   ninety-nine sales and temperature controlled  
19   interruptible customers. That is ninety-five percent  
20   of the statewide total, located in the downstate  
21   region.

22                   Again, according to D.P.S., a full  
23   sales and temperature controlled gas interruption  
24   displaces about two hundred and sixty-seven thousand  
25   dekatherms, which is the B.T.U. equivalent of almost

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2    two million gallons of heating oil a day.

3                                    So, an industry configured to  
4    supply some ten million gallons of distillate  
5    products on a normal winter day was now facing an  
6    increased demand from its own customers and from  
7    curtailed natural gas customers, of close to thirty  
8    percent, or an additional three million gallons a  
9    day. Significantly higher than normal demand and  
10   severely constrained supplies, will, of course, be  
11   reflected in the most obvious economic variable. And  
12   that is price.

13                                  According to NYSERDA, the average  
14   residential heating price in the downstate region  
15   increased by some thirty cents a gallon, from January  
16   1 through the first week of February. The retail  
17   price reflects the twenty-nine-cent-per-gallon  
18   increase, in the January U.L.S.D. settlement price on  
19   the New York Mercantile Exchange, which, in turn, is  
20   reflected in higher wholesale prices at fuel  
21   terminals throughout the region.

22                                  MR. ROONEY: It should also be  
23   noted that the price of ultra-low sulfur on-road  
24   diesel also increased by some nineteen cents, on  
25   average, during the same period, due, in large part,

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2   to increased demand for ultra-low sulfur heating oil  
3   since, in New York, they are now essentially the same  
4   product.

5                                   So, for a variety of reasons, the  
6   petroleum industry in New York, continues to  
7   downsize. There is less refinery output, less  
8   available bulk storage capacity, and less demand from  
9   traditional sources.

10                                  By the same token, demand for  
11   natural gas supplies, from electric generators,  
12   interruptible and firm gas customers continues to  
13   increase. However, those gas supplies continue to be  
14   constrained during periods of extreme or abnormally  
15   cold weather conditions.

16                                  Warmer than normal weather  
17   conditions, over the past few years, have simply  
18   papered over the problems, which the entire energy  
19   industry experienced this January. Ironically, while  
20   the natural gas industry is -- is aggressively  
21   seeking to add more firm load to its systems, at the  
22   expense of the oil heating industry, it is becoming  
23   more dependent than ever on that very same industry,  
24   in order to maintain gas supplies to its firm  
25   customers, during cold weather periods.

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2                                    Only the relief valve, of its  
3 interruptible gas load allows the gas industry to  
4 meet its peak firm load, as happens -- as happened  
5 this winter. The ramifications of this flawed  
6 strategy are self-evident. As more firm gas load is  
7 added, the likelihood of a greater number of gas  
8 interruptions, for longer periods of time, increases  
9 exponentially. At the same time, the ability of the  
10 petroleum industry to meet an unanticipated twenty to  
11 thirty percent increase in daily demand has decreased  
12 exponentially.

13                                   The gas industry clearly benefits  
14 from being able to curtail interruptible customers to  
15 meet peak demand from their firm customers. By the  
16 same token, electric generators, municipalities, and  
17 large commercial industrial entities, also benefit  
18 from the substantial costs savings of being able to  
19 purchase gas on an interruptible bases. As such,  
20 they need to be proactive in order to fully and  
21 properly prepare for the increased likelihood of  
22 interruption events.

23                                   These large volume customers need  
24 to be told, in no uncertain terms, that if they wish  
25 to continue to derive the financial benefits of

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2    buying gas on this basis, then they have to make the  
3    necessary financial investment to install adequate  
4    supplies of their alter -- alternative fuel,  
5    physically on site for those times when their gas  
6    supplies are interrupted. In all honesty, this is  
7    just common sense.

8                                    Attached to our formal statement  
9    are recommendations which are summarized here on  
10   alternative fuel supply, which we respectfully urge  
11   the Commission, the electric and gas utilities, and  
12   their customers to consider. Because the ultimate  
13   mistake for them would be to do nothing and simply  
14   assume that the oil industry, as it is currently  
15   configured, will always be around to support a gas  
16   supply demand imbalance, which they, themselves, have  
17   created as a fundamental part of their operating  
18   systems.

19                                   In the competitive energy markets,  
20   heating oil is usually viewed only as a competitor.  
21   The reality is not as distinct. Our industry acts as  
22   a critical back-up fuel supplier to both electric  
23   generating and natural gas customers, enabling  
24   facilities that are essential to the state energy  
25   sector and the state's energy consumers to keep

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2     operating. It is important to recognize the  
3     interconnected nature of the relationships which  
4     exist between all fuels, in order that the  
5     reliability of supply and the price-ability of all  
6     fuels are achieved.

7                   In conclusion, for the regulated  
8     gas and electric utilities, when both electric  
9     reliability and fuel supplies to schools, hospitals,  
10    apartment buildings, and commercial establishments  
11    hang in the balance, gambling on my industry's  
12    continued ability to supply them and their customers  
13    during periods of extreme cold and high demand may  
14    well prove for them, to be little more than a  
15    Hobson's choice. That is taking what we can  
16    realistically supply, or nothing at all.

17                   Thank you for your time.

18                   CHAIR ZIBELMAN: Thank you.

19                   While I understand everyone's been  
20    sitting here, I think these issues are too important.  
21    And rather than bring the panel back, let's -- if you  
22    don't mind, let's take a few minutes and I want to  
23    make sure we all have had a chance to ask our  
24    questions.

25                   So, just to -- just to -- I want to

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2    go back to a point, Wes, that you made at the end,  
3    which is that there is a significant value about  
4    being part of an eastern interconnect, where you have  
5    large markets and you have the ability to import,  
6    export, to take care of price differential. And I --  
7    I don't, obviously, disagree with that. I think it's  
8    of huge value.

9                                   My only point was a small point and  
10   I would ask that the ISO look at it. If in fact, we  
11   see, somehow, an emerging issue that exporting  
12   influences one part of the price in the -- in the New  
13   York ISO, I think that that is become -- load,  
14   itself, becomes part of a storage, essentially, or it  
15   should be effecting -- that they're being adversely  
16   effected would be is if one generator was adversely  
17   effected that would otherwise be economically  
18   dispatched, but would -- is somehow constrained. And  
19   I think this just merits looking at what is  
20   influencing this price differential, so we know that  
21   if we're looking for a solution, we're -- we're  
22   focused in the -- in the right direction.

23                                   Not -- not to disagree, though. We  
24   don't want to stop importing and exporting because it  
25   helps us.

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2 On terms of this -- there a couple  
3 of issues. Courtney you raised an issue and I -- I  
4 just want to make sure I understand it. I mean,  
5 basically what you're saying is that in order for any  
6 generator -- a gas generator to maintain adequate  
7 fuel supply, whether it's -- and I'm going to ask you  
8 this, I guess, more of a question, whether it's firm  
9 gas or back-up resources in inventory, your  
10 suggestion is -- is that that -- that imposes a cost  
11 and that maybe there should be an additional product  
12 that values that in the market? Is that what you're  
13 suggesting?

14 MS. MADEA: Yeah. I was just  
15 talking about the oil resources and in terms of their  
16 inventory, in -- so this -- this notion where  
17 generators should be somehow incented to -- to keep  
18 that oil inventory high. That's what we're talking  
19 about, about establishing a separate New York ISO  
20 product, where it would compensate it as a -- as an  
21 ancillary service.

22 CHAIR ZIBELMAN: And --

23 MS. MADEA: And I think --.

24 CHAIR ZIBELMAN: -- would that be a  
25 product -- I mean just in order to be somewhat

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2   neutral in terms of technology, wouldn't that be a  
3   product that you would say is a -- an alternative to  
4   relying on natural gas, so if it's storage, or if  
5   it's wind, or if it's solar, or if it's nuclear, if  
6   it's hydro, they're providing the same benefit? Is  
7   that correct?

8                   MS. MADEA: Yeah. I think -- I  
9   think that could all be fine and we'll get to the  
10  same issue. And I think where that -- where that  
11  comes from is -- you know, Michelle mentioned the New  
12  England PI proposal and there is talk in the New York  
13  I.S.O. of somehow penalizing oil generators, one  
14  month's capacity payments, if they're not available.  
15  And I think both of those -- the -- both of those  
16  things are policy changes that would discourage the  
17  older oil units, which are the units that kept the  
18  lights on this winter, from participating in the  
19  market.

20                   And so, what we're -- all we're  
21  saying is that we need policies that go the other  
22  way. Instead of putting more risk on them and  
23  punishing them, ones that recognized the importance  
24  of them and keep them around.

25                   CHAIR ZIBELMAN: Provide incentive.

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2 And that -- I mean, I was thinking  
3 that -- that demand reductions, type of things that  
4 Mr. Mager was talking about would fall into that,  
5 too.

6 MS. MADEA: Uh-huh.

7 CHAIR ZIBELMAN: That they have a  
8 benefit.

9 Okay. And then, Mr. Truxell, I --  
10 and I -- and I need to understand because listening  
11 to both you and Ms. Bloodworth, I mean, I -- what I'm  
12 hearing and I think everyone else has said, this is  
13 not a -- it's not a supply issue. There's plenty of  
14 adequacy of gas supply and we see some of the basis  
15 differential, in that there is probably people who  
16 want to provide gas that just couldn't get it  
17 delivered to the points.

18 But you -- and -- and -- and you  
19 indicated -- you said well as a pipeline, your prices  
20 are -- are regulated, right, on -- at least on the  
21 firm pipeline capacity?

22 MR. TRUXWELL: That's correct.

23 CHAIR ZIBELMAN: But on the  
24 non-firm capacity, on that piece of it, there is a  
25 second -- I mean, as what I understand, is that --

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2 that's the part of the capacity, as it gets released,  
3 is influenced by demand and that's where we saw the  
4 price rises; right?

5 MR. TRUXWELL: It -- that is  
6 correct. In the secondary market, there are -- those  
7 prices are -- again, are still not set by the  
8 pipeline. They are still -- they're set by the  
9 market. We just have a mechanism to allow our  
10 shippers to release their capacity to a third party.

11 CHAIR ZIBELMAN: Okay. And -- and  
12 so, if -- if I were -- if I'm just following the  
13 money the correct way is -- is that then -- from the  
14 perspective, is the producers weren't making more --  
15 necessarily more money. It's just the folks that --  
16 what we call a gray market, the secondary market,  
17 where we saw that the ability to profit from the  
18 scarcity -- or the -- the high demand, I would say?

19 MR. TRUXWELL: Yeah. I would -- I  
20 would say that is correct. I don't have, you know,  
21 the evidence of -- of that, but I -- that is  
22 essentially how it works, though.

23 CHAIR ZIBELMAN: And -- and is  
24 that -- so, then my question had been to you, Ms.  
25 Madea, does energy by firm pipeline capacity -- and I

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2    would say, Mr. Parisi, you too, is that -- I mean,  
3    this -- this becomes, I think, the -- the horns of  
4    the dilemma. Who will -- I mean, we have, on one  
5    side, Ms. Bloodworth is saying that some of the  
6    producers are starting to push for increasing  
7    pipeline capacity, but are -- are you -- are you  
8    folks seeing a need to maybe think about this as a  
9    value of making certain that you can hedge or protect  
10   yourselves of looking at buying additional firm  
11   pipeline capacity, to ensure reliability of the -- of  
12   the resources and their availability when we need  
13   them?

14                   MR. PARISI: I -- I would have to  
15   find out for sure. I believe -- I believe we do  
16   some, but not completely.

17                   MS. MADEA: Yeah. And we have  
18   some, as well. And then in constrained pipeline  
19   areas, we have firm from third party suppliers. And  
20   so, I think the -- basically, the -- from talking to  
21   our gas guys, it's we have the firm that we need in  
22   the constrained areas, but this notion of requiring  
23   it all across the board, that's just a -- a second  
24   step that doesn't seem necessary at this point.

25                   CHAIR ZIBELMAN: Not necessary from

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2 the standpoint of required to make your -- keep your  
3 units running?

4 MS. MADEA: Yes.

5 CHAIR ZIBELMAN: And -- and -- I  
6 mean, I -- and I -- the obvious point, obviously, if  
7 you're buying firm and others aren't, there's a  
8 potential cost that you're incurring that doesn't --  
9 isn't necessary, as -- as long as gas is hitting the  
10 marginal price.

11 That -- and so it follows -- so  
12 that -- and then that becomes the horns of the  
13 dilemma, who in the industry -- and it might be the  
14 producers, but who else -- and that's our -- is going  
15 to buy it, because obviously if there's no demand, no  
16 one's going to -- you're not going to be able to  
17 build. Is that -- following all this correctly;  
18 right?

19 I'm not trying to cross examine. I  
20 mean, I think that our -- the biggest dilemma I have  
21 is who, anymore, in this -- in our restructured  
22 industry --

23 MS. MADEA: Uh-huh.

24 CHAIR ZIBELMAN: -- is the natural  
25 entity to create the demand for firm pipeline

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2 build-up.

3 MR. TRUXWELL: Okay. And -- and  
4 many of the -- many of the projects that we -- that I  
5 mentioned today are, as Michelle mentioned as well,  
6 are -- it's the producers that are -- are signing up  
7 for the firm capacity because they want to get their  
8 product to market.

9 MS. BLOODWORTH: But let me just  
10 clarify. All -- all of our producers have different  
11 business models. So they're going to look at their  
12 investment and their return, as well.

13 New York, you know, from a producer  
14 push pipeline investment, we -- we are seeing more  
15 because they feel like the economics are justifying,  
16 based on the demand, different than, you know,  
17 building pipelines to New England. However, I would  
18 caution that.

19 And again, each one of them looks  
20 at their business model differently. They're going  
21 to invest where there's a lot of regulatory certainty  
22 and where they also think, whether you're N.R.G. or  
23 Con Ed, that they have the market incentives and the  
24 mechanisms to be able to contract and recover those  
25 costs for that service.

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2 But the producer push pipelines,  
3 they're still only investing to these local trading  
4 points. And so, where they're not able to extend is  
5 that last -- that last mile. And so, in order to get  
6 it to the load-serving entity, the generators really  
7 have to have the incentives that value reliability.  
8 And -- and I'm very much with Cortney, that, you  
9 know, you shouldn't be mandating, you know, one fuel  
10 option over another. Let the market work. Let --  
11 let the fuel options compete.

12 But again, we just have to make  
13 sure that those market rules are incentivizing and  
14 valuing reliability enough to let that market work,  
15 if that makes sense.

16 CHAIR ZIBELMAN: And -- and in  
17 terms of that, I mean, from your perspective,  
18 Cortney, is one of the issues around the ability to  
19 sell forward, on a firm basis, versus a -- I -- I'm  
20 just thinking if -- if you had -- if we had more  
21 longer-term hedging in the market on the demand side,  
22 would that help -- in your view, help provide the  
23 right incentive, so that the desirability of having  
24 more firm capacity on the delivery side would drive  
25 that? Would be one of the natural market incentives?

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2 MS. MADEA: Yeah, maybe. But I  
3 guess right now, where we are is that there's enough  
4 liquidity, enough availability in the spot market for  
5 us to get what we need to run our plants. And so we  
6 don't see -- we don't see firm gas as our -- our  
7 issue or the solution to any problems that we're  
8 having.

9 And I think, in one instance, we  
10 even had one of our plants that has firm, it got cut.  
11 So, it doesn't get us where we need all the time.

12 CHAIR ZIBELMAN: Okay. Thank you.  
13 Any questions?

14 COMMISSIONER BROWN: Just one quick  
15 question for anybody that happens to know. Did any  
16 generator require any D.E.C. permit, waivers for your  
17 resources because they couldn't get the proper fuel  
18 that they needed this winter?

19 MR. PARISI: I -- I knew one of the  
20 plants was -- was attempting to get that. I think  
21 eventually they got their fuel supply straightened  
22 out and didn't need it, but there was a barge --.

23 COMMISSIONER BROWN: So, they --  
24 they were trying --

25 MR. PARISI: They were trying.

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2 COMMISSIONER BROWN: -- but ended

3 up in the end --

4 MR. PARISI: That's right.

5 COMMISSIONER BROWN: -- Charlie's

6 guys --

7 MR. PARISI: Yeah.

8 COMMISSIONER BROWN: -- came

9 through?

10 MR. PARISI: Yeah.

11 COMMISSIONER BROWN: Okay.

12 MR. ROONEY: We -- we -- actually,  
13 our industry sought a -- a waiver of the ultra-low  
14 sulfur requirements.

15 CHAIR ZIBELMAN: Any further  
16 questions?

17 Okay. Well, we'll break for lunch  
18 and thank you very much.

19 (A luncheon recess was taken at  
20 12:52 p.m.)

21 (The hearing resumed at 1:48 p.m.)

22 CHAIR ZIBELMAN: Commissioner Brown  
23 observed that one thing as sort of our takeaway from  
24 today, is it was really cold this winter, in case  
25 anyone didn't notice.

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2                                   So, thank you, and we're going to  
3 go on to the -- the new panel. I guess that joke  
4 just sort of fell flat. In the interest of time,  
5 we'll -- we want to make sure to try to get folks out  
6 of here, as close as we can to five o'clock.

7                                   I've lost my sheet.

8                                   Okay. So this is Panel Three. And  
9 today -- you know, we had the suppliers and now,  
10 essentially we're talking to the purchasers and  
11 really kind of getting an understanding of what --  
12 what's happening on the demand side of the equation.

13                                  And with that, our speakers today  
14 are Patrick Badgley, who's the Associate Editor of  
15 American -- American Natural Gas, from Platts. King  
16 Look, who is the Director of Electric Supply with Con  
17 Edison, of New York. William Atzl, who is Director  
18 of Rate Engineering, with Con Edison in New York.  
19 Christopher Wentlent, who's with the New York Retail  
20 Electric Supply Association. Margaret Janzen and  
21 Pamela Dise, Margaret is the Director of Wholesale  
22 Supply with National Grid and Pamela is the Director  
23 of New York Pricing for National Grid.

24                                  So, welcome to the panelists. And  
25 as I said, I'm very, very interested in this whole

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2    issue of how do we create hedge products, if  
3    that's -- if that's a solution. And I know you've  
4    all prepared remarks, but certainly it will be  
5    helpful to me to get a picture of what kind of  
6    products are out there offered and what -- what  
7    better things we could be doing.

8                   I know that the utilities already  
9    hedge on -- on pieces of it. It'd be helpful to  
10   understand what they're doing.

11                   And then, Chris, it would also very  
12   helpful to understand from the ESCO perspective, what  
13   can -- what's being done and what -- maybe what  
14   things we could do, or help out and get done better.

15                   So, with that, we'll start with  
16   Patrick. Thank you.

17                   MR. BADGLEY: Thank you, Madam  
18   Chair, and thank you Commissioners, for having me  
19   today.

20                   I'll start out just by kind of  
21   giving an -- an overview of Platts and what we do and  
22   how -- you know, the -- the role that we play in  
23   these markets. And -- so and our first slide here,  
24   just to run down, we've got ninety-nine pricing  
25   points in the daily spot market and that's including

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2 locations in the U.S. and Canada. In addition to  
3 that, we actively track markets to see where new  
4 locations should be added, which is a -- a really key  
5 issue.

6 Right now, with the -- with the  
7 onslaught of all this Marcellus production and -- and  
8 in fact, the most -- the most recent point, which  
9 came just about a month and a half ago, is related to  
10 that. It was the Tennessee Zone Six, three hundred  
11 leg point, where there was a bifurcation in the  
12 market between production and the Tennessee Six,  
13 delivered. So, you know, that's an indication of how  
14 these markets are changing and -- and the different  
15 kinds of production we're seeing.

16 So, what we accept in our -- in  
17 the -- the trades that were reported to us, are  
18 negotiated fixed price trades for -- in the spot  
19 market -- in the daily spot market, for next day  
20 delivery. We receive transactions from the back  
21 office of companies, from risk departments and not  
22 the traders, themselves. They are given to us  
23 electronically and we -- we have records of those.

24 We have clearly defined price  
25 points that are outlined in our methodology. And our

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2 independent editorial process requires us to go  
3 through those sheets, review the prices and, you  
4 know, in cases where it's necessary, make sure that  
5 they're mapped correctly and that we're speaking with  
6 the companies to understand -- to make sure that  
7 there's the correct understanding at all levels of  
8 where this price is going and where it -- what  
9 pricing definition it belongs in.

10                   And in our monthly markets, we have  
11 trades from the -- this is referred to as bidweek,  
12 the last five days -- the last five business days of  
13 the month. Larger amounts of data there, same price  
14 analysis process, and basically that -- that covers  
15 physical basin -- or I'm sorry -- the base-load gas  
16 for next month delivery. In that you also see the  
17 low and high range deals, index volume and deal  
18 counts published for each of the locations.

19                   So, when we refer to -- to basis at  
20 those points that are -- that are east of the  
21 Rockies, we're talking about the basis to the NYMEX  
22 Henry Hub contract. And basically the forward -- the  
23 forward basis references that market as a  
24 differential to the Henry Hub. You know, clearly  
25 at -- at congested points in the northeast, you can

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2    see very high -- very high, positive differentials.

3    Other points, you might see lower differentials.

4                                   The NYMEX covers the following  
5    month of the year, which is very -- very closely  
6    watched by the market and also allows hedging for  
7    months in current year, in addition to the next  
8    twelve calendar years.

9                                   Then you have a intercontinental  
10   exchange, which is a major trading vehicle for spot  
11   market trading. There's also forward availability on  
12   that.

13                                  This is a recent screen shot, about  
14   a -- a week or so old. You have this year in  
15   January, we were seeing prices up in that triple  
16   digits in some cases, forty, fifty dollars. So,  
17   things have certainly settled down since then, but,  
18   you know, at a very high level of volatility. You  
19   know, so the question there is how did these prices  
20   go from four to five dollars at the well head, with,  
21   you know, a -- a dollar for -- for transmission  
22   capacity, to a hundred dollars -- a hundred and  
23   twenty dollars at the New York Citygates. And the --  
24   the simple answer is that the congestion on the  
25   pipelines, heading into that region.

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2                                   You know, this year, day after day,  
3 we saw operational flow orders, which were discussed  
4 before and, you know, made shipments match up with --  
5 with what was scheduled.

6                                   In addition, you have the -- the  
7 shippers who own firm capacity and who own the  
8 commodity. You know, basically, the prices at the --  
9 at the Citygates really represent a bundled price  
10 between those -- between those two costs. You know,  
11 so what people are willing to pay at the Citygate is  
12 the price that you'll see. And, you know, that's, in  
13 essence, a bundled package.

14                                  Now, in that kind of congested  
15 environment, those prices can really -- can really  
16 rise as power generators can face penalties, if  
17 they're scheduled to -- to dispatch, but can't run,  
18 or if obligations aren't being met, there can be  
19 penalties. The environment also led participants in  
20 the market to urge ICE to increase the maximum spot  
21 physical offer to a hundred and ninety-nine dollars,  
22 up from ninety-nine dollars. And that -- that came  
23 during some of the harshest periods of the winter.  
24 And you certainly saw it reach above the previous  
25 ninety-nine-dollar price level, pretty quickly.

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2 As we've heard today, the fixed  
3 capacity is more expensive. And power plants that  
4 are fueled by gas, you know, say they don't  
5 necessarily need the gas to be flowing all the time.  
6 So there is certainly an understanding of why they  
7 might not subscribe to firm capacity, especially at  
8 gas-peaking plants. So, there are some capacity  
9 markets, address those -- address that higher --  
10 higher cost firm price.

11 So, you saw prices, as I mentioned,  
12 really reach above the ninety-nine-dollar level,  
13 pretty quickly, after -- after the change on ICE.  
14 And this is just kind of a quick look of -- of some  
15 of the highlights that we saw this -- this winter, as  
16 far as -- as far as the high prices.

17 You know, fairly early on, over  
18 the -- the Thanksgiving weekend, you know, we saw  
19 Winter Storm Boreas, which drove New England prices  
20 up to about ten dollars. And, you know, that was --  
21 it seems kind of tame in retro -- in retrospect,  
22 considering what we saw this winter, but, you know,  
23 after -- after a couple of years of -- of fairly low  
24 volatility, it really -- really stuck out and kind of  
25 was a precursor to what was coming on this winter.

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2 On December 6th, we saw western  
3 prices hit multi-year highs as -- as we saw a winter  
4 storm -- another winter storm pretty early in the  
5 year. January 3rd, we saw ten-year highs in the  
6 Midwest, Chicago Citygates and Michigan Consolidated.  
7 January 21st, Northeast prices hit all-time highs,  
8 with a -- a hundred and twenty dollar prices at  
9 Transco New York and Transco non-New York. And then  
10 in January 27th, we saw another round of -- of high  
11 prices.

12 And not to be left out, in -- in  
13 February, the western -- Western U.S. really got a --  
14 a dose of nasty weather and prices there set records  
15 at about forty-three dollars in the spot market.

16 So, at -- at some points, it really  
17 felt like the winter that wouldn't end. And New York  
18 prices really weren't -- weren't alone in -- in  
19 experiencing those extremely high levels, but -- but  
20 certainly -- certainly, were the exception in -- in  
21 how high they did go.

22 So, you know, kind of trying to --  
23 trying to reconcile that with -- with the amounts  
24 of -- of production that is just really greatly  
25 growing in the United States, all the headlines

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2    you've seen have been regarding the -- the shale  
3    market -- or the shale production and just how much  
4    that's kind of a game changer.

5                                    But, you know, Bentek, which is  
6    a -- a Platts -- the Platts analytical unit, is  
7    forecasting production will average around  
8    sixty-eight B.C.F. per day this year. And that's  
9    about two B.C.F. higher than -- than last year -- two  
10   B.C.F. per day, higher than last year.

11                                  And you're really seeing evidence  
12   of that already, now that the winter has come and  
13   gone and some of the -- the freeze-offs that we saw  
14   at the wells have been -- have been shaken off.  
15   Northeast production, in the last week or so, has  
16   averaged more than fifteen B.C.F. per day, which  
17   is -- is quite amazing. It's thirty percent above  
18   the same period last year.

19                                  But even with all that, you still  
20   have the constraints heading into the eastern  
21   consuming markets and the trouble getting to that  
22   so-called final mile in the -- in the key market  
23   centers. So, as -- as has been mentioned it here  
24   today, there's the more producer -- you're saying  
25   more producer pushed product -- or projects on the

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2 pipelines, than consumer pull products and it's  
3 really -- really challenging to get -- to get -- to  
4 get the pipeline in that last -- the last stretch  
5 where the demand might be that heaviest.

6                   So, somewhat counterintuitively,  
7 despite all that -- that production that's coming on  
8 in the Eastern U.S., you're really seeing Eastern  
9 U.S. consuming regions, they came into this season  
10 with a -- with a -- the five-year low for their --  
11 for their storage inventories, so that, you know,  
12 they had -- they started low. You know, in speaking  
13 with -- with market sources, there was a feeling  
14 that -- that Marcellus production would kind of make  
15 up for the -- the inventory.

16                   And as you see, we also came out of  
17 the season at a -- at a five-year low. And next  
18 year, expected with storage inventories, even lower  
19 than last year. So, that is a concern. It's a big  
20 project in building up these -- in building up the  
21 storage inventory.

22                   So, in the U.S. overall, there was  
23 a -- a -- a -- the storage withdrawal season came out  
24 at the lowest in eleven years. Season kicked off --  
25 this injection season kicked off with a couple of

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2 lower than inspected injections, but those are -- are  
3 picking up now. And because of that, the NYMEX, in  
4 the last -- the last week or so, in -- in light of  
5 these -- in light of these recent storage and heavy  
6 storage injections, has really gone down in price.

7 And you can see the -- the heating  
8 degree days there were far above average in -- in a  
9 couple of months this year. So, there was a -- it's  
10 very clear what -- what was happening.

11 And I'm sorry, I'm running out, but if I could just  
12 have one minute --

13 CHAIR ZIBELMAN: Go ahead.

14 MR. BADGLEY: -- to run through?

15 Okay.

16 So, we've also noted that -- today,  
17 that coal and -- and oil fired generation were relied  
18 upon much -- much more this year, as compared to the  
19 last couple of years because of -- because -- and --  
20 and it was economical because of -- of constraints.  
21 So, you know, it will be interesting to watch that  
22 going forward as new regulations come into place  
23 that, you know, in natural gas, is at this point, the  
24 preferred fossil fuel and the -- as it's evidenced in  
25 the new builds that we're seeing.

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2 The next chart here, we just give  
3 you a quick look at -- the orange line is the -- the  
4 Transco New -- Zone Six New York price. And it -- it  
5 was well above comparable fuels for -- for a good  
6 chunk -- or for several occasions on this winter.

7 Now, because of that, we also are  
8 coming in with a pretty -- pretty low stockpile of  
9 coal inventories, nationwide in the U.S. and, you  
10 know, that really could lead to more natural gas  
11 fired generation this summer, you know, even with  
12 prices being -- being at levels above where they were  
13 last year.

14 And just a -- a couple more slides  
15 here, with just a couple -- a quick look at -- at  
16 prices. You know, it's -- it's no secret that we've  
17 really seen things go quite up a bit, but I think  
18 this illustrates, you know, the -- the New York  
19 and -- and the Eastern U.S. were really quite  
20 exceptional in what -- in how high prices went.

21 And in the production regions,  
22 along the Gulf and at Tennessee Zone Four, three  
23 hundred leg in the Marcellus, you know, which had --  
24 had -- and not too long ago, in -- let's see,  
25 October, had spent some time at about twenty-five

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2   cents, kicked back up to about -- about four dollars  
3   and fifty cents. So, obviously not the -- not the  
4   basis blowouts there, but some -- some significant  
5   increases.

6                   And then looking ahead in our -- in  
7   our forwards packages, you can see that it's a --  
8   it's really quite a different story. In 2014, which  
9   is represented by the -- by the blue bars, you see  
10   that Transco New York is -- has actually gone pretty  
11   far negative to Henry Hub basis. And again, that's  
12   the onslaught of the Marcellus production.

13                  In Algonquin, even in that  
14   congested market, there's a pretty significant drop  
15   in -- in basis there. And in Dominion South, the  
16   production region, it's -- it's a -- a similar story,  
17   to even a greater degree.

18                  And then for the coming winter,  
19   though, it is -- it is pretty clear, our forwards are  
20   showing that there were -- were some -- that  
21   basically, this winter got into the psychology of  
22   people involved in the market. If you look at  
23   Algonquin, it's up to about plus eight dollars and  
24   twenty-five cents for the -- for 2014 winter, which  
25   covers November through March and that's more than

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2 double 2013 and Transco New York also -- also comes  
3 up very high there.

4 CHAIR ZIBELMAN: Thank you.

5 MR. BADGLEY: Thank you.

6 CHAIR ZIBELMAN: Mr. Look, we'll  
7 turn it over to you.

8 MR. LOOK: Thank you.

9 CHAIR ZIBELMAN: And by the way, I  
10 didn't mean to scare anyone. We're -- we're still  
11 going to try to end at four o'clock. I think I had  
12 said five.

13 MR. LOOK: Okay. Okay. Thank you,  
14 Madam Chair and Commissioner.

15 Con Edison will welcome the  
16 opportunity here to -- to provide a -- an overview of  
17 our hedging program.

18 First slide. The next one. Yes.  
19 Yes.

20 I'll be speaking, provide an  
21 overview of the hedging program. My colleague here,  
22 Mr. Atzl will provide a discussion on the supply cost  
23 recovery mechanism.

24 Yes. A hedge is a -- is an  
25 investment made to reduce the -- to reduce the

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2    significant price movement in an asset. It generally  
3    does this fixing or limiting the price movement.

4                                    Con Edison's hedging program is  
5    designed to mitigate price volatility of customers.  
6    The goals of the program are fundamentally based on  
7    Commission order, in case zero six dash M dash ten  
8    seventeen, which states electric utilities have been  
9    expected to manage the electric supply portfolio, in  
10   conformance with the principle established in the  
11   retail market policy statement, where it was  
12   determined that electric utilities should maintain  
13   balance commodities supply portfolio characterized at  
14   neither zero percent, nor a hundred percent hedge,  
15   for serving residential and small commercial and  
16   industrial, collectively, mass market customers,  
17   unquote.

18                                    Electric -- electricity price  
19   volatility is primarily caused by changes in the cost  
20   of the underlying fuels, used to generate  
21   electricity. A shift in the supply and demand, due  
22   to weather and/or unexpected loss of generation,  
23   would mitigate the impact of high volatility or  
24   short-term market prices on customers, by hedging  
25   more -- more than zero percent. We allow customer

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2    supply cost to follow the long-term trend in -- in  
3    hedging prices by hedging less than a hundred  
4    percent.

5                                    In short, the hedge program is  
6    designed to mitigate price volatility while allow  
7    customer to follow and respond appropriately to the  
8    long-term energy trends.    Con Edison's hedging  
9    program also includes managing our existing physical  
10   supply, by optimizing the optionality of a physical  
11   contract and co-generating facilities that we own.

12                                  Physical supply includes our own  
13   generation and contracts that generates in Upstate  
14   New York and in New York City Metropolitan area.    We  
15   currently have seven contracts, one of which is for  
16   capacity only and that's with the Dynergy  
17   Independence plant, located up by Lake Ontario.    The  
18   other six contracts are for both energy and capacity  
19   and their energy prices vary with natural gas prices  
20   or electric spot prices, or they vary within a floor  
21   and ceiling.

22                                  Depending on which commodity that  
23   energy prices are indexed to, we would purchase  
24   either electric or natural gas financial hedges, to  
25   limit our price exposure.    In addition, we also

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2        purchased natural gas financial hedges for our own  
3        generations. We currently have above seven hundred  
4        megawatt of own generation. Almost all our  
5        co-generation facilities are producing steam for --  
6        for our steam system.

7                                    Since many of our supply contracts  
8        are with generating plants that are outside of our  
9        service area, which is Westchester County, New York  
10       City, we'll also procure transmission congestion  
11       contracts or T.C.C.s to hedge against congestion  
12       costs associated with delivering the energy into our  
13       service areas.

14                                  Between our own plants and physical  
15        supply contracts, they represent eighty percent of  
16        current supply mix, leaving about twenty percent that  
17        we buy from the spot market. We use both electric  
18        and natural gas financial hedges to -- to hedge these  
19        supplies. In total, our hedge costs about sixty  
20        percent of our supply mix.

21                                  On this slide and the next three  
22        slides, I will go over some hedging basics. There  
23        are many different financial instruments that can be  
24        used to mitigate price volatility, but I will focus  
25        on three common-use instruments, swaps, collars, and

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2 options.

3 All these instruments share some  
4 common characteristics that are associated with  
5 underlying product. It requires little or no initial  
6 investment and can be rarely settled. An example of  
7 an underlying product is Henry Hub Natural Gas or  
8 Zone J Electric. A swap would not require an initial  
9 investment, but an optional collar will, in the form  
10 of premium, unless the collar is costless. I will go  
11 over each of these financial instruments, in the  
12 following slides.

13 Finally, instruments can be very  
14 subtle. In other word, there is a liquid market  
15 support product. We use all of these products in our  
16 portfolio.

17 In this example, it's a payoff  
18 chart for a swap. While this example shows a payoff  
19 of a power swap, a natural gas swap payoff is  
20 similar. In this example, if we purchase a hundred  
21 dollar per megawatt fixed for a flow swap and the  
22 swap it's -- a hundred and thirty dollar per megawatt  
23 hour, our counterpart also see a difference of thirty  
24 thousand megawatt hour, which is shown by the bar,  
25 which when against a hundred and thirty dollar per

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2    hour supply purchase from the market, our effect of  
3    supply purchase cost would be a hundred dollar per  
4    megawatt hour.

5                                    Conversely, if the swap settles  
6    seventy dollar per megawatt hour, which is  
7    represented by the -- the yellow arrow, we will pay  
8    our counterpart a net of thirty thousand per megawatt  
9    hour, which when added to a seventy dollar per  
10   megawatt hour supply purchase from the market, our  
11   supply purchase cost would again be a hundred dollar  
12   per megawatt hour. That swap is one of the best  
13   instruments to mitigate price volatility.

14                                   This shows the example of a  
15   purchase of a collar with a hundred ten dollar per  
16   megawatt ceiling and a ninety dollar floor. Again,  
17   this is a pay-out chart for a collar. In this  
18   example, we buy a co-option with a strike price of a  
19   hundred and ten dollar per megawatt hour and sell  
20   option with a strike price at ninety dollar.

21                                   Since the collar is costless, the  
22   amount we pay for the co-option premium is completely  
23   offset by the premium we receive for selling the  
24   option. If the collar sells at a hundred and thirty  
25   dollars, represented by the arrow, we receive twenty

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2    dollar and a settlement price minus the collar  
3    ceiling price.

4                                    Our customers would pay the price a  
5    hundred and thirty dollar per megawatt hour.

6    However, that cost is offset from the collar hedge  
7    entered by the company, thus fixing the price for the  
8    customer at a hundred and ten dollar per megawatt  
9    hour.

10                                  Conversely, the collars sells for  
11    seventy dollars, we pay our counterparty twenty  
12    dollars. Our customers would pay the price of  
13    seventy dollars per megawatt hour. However, there's  
14    a hedge cost of twenty, thus fixing the price for the  
15    customer at ninety dollars per megawatt hour.

16                                  If the collars sells between the  
17    floor and the ceiling, no money changes hand. The  
18    customer pays the settlement price between the floor  
19    and ceiling.

20                                  From cost perspective and when  
21    compared to a swap, the collar will reduce the  
22    potential hedging loss by the expense of low  
23    potential upside hedging gains.

24                                  The following -- this chart shows  
25    the pay-off for a call option. In this example, we

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2    buy a call option, with a price of a hundred and ten  
3    dollar and a premium of five. If the call option  
4    sells at a hundred and thirty, we receive a twenty  
5    dollar from the counterpart, but they actually gain  
6    us fifteen dollars, because we paid the counterparty  
7    five dollar for the option premium at the time of the  
8    transaction.

9                                    The customer would pay the price of  
10   a hundred and thirty dollar. However, that cost is  
11   offset from the option hedge entered by the company.  
12   Thus, fixing the price for the customer at hundred  
13   and fifteen dollar.

14                                   If the option settle at seventy  
15   dollar or any amount below one hundred and ten, we do  
16   not exercise the option.

17                                   Our loss is limited to the premium  
18   paid for the option. In this example, the customer  
19   would pay the price of seventy dollar per megawatt  
20   hour. However -- however, there's a hedge cost of  
21   five dollar. Thus, fixing the price for the customer  
22   at seventy-five dollars.

23                                   From cost perspective and like the  
24   collar, the option will reduce the cost of potential  
25   hedging loss. In this case, limit to the premium,

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2    but at the expense of lower potential upside hedging  
3    gains.

4                                    Our financial hedge plan is a  
5    multi-year plan that is updated annually, with the  
6    latest forecast of energy market prices and the  
7    requirements of the mass market, incorporated by  
8    various analysis that include backcasting,  
9    sensitivity analysis, and analysis. But the primary  
10   goal also consider -- is considered and it's  
11   reflected in analysis.

12                                  For example, as energy prices were  
13   coming down over the 2008 to 2012 period, overall  
14   supply costs came down, but hedging costs began to  
15   represent a larger share of these supply costs. In  
16   response, Con Edison adjusted its hedge portfolio to  
17   reduce hedging costs, while still mitigating  
18   volatility.

19                                  Our hedge plan review, adjustment,  
20   and implementation are methodical and robust. The  
21   hedge plan is reviewed at least once a year with  
22   P.S.C. staff, and it's reviewed with senior  
23   management.

24                                  In our implementation, we approach  
25   our hedges in modest increments over time, so that

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2 market liquidity is not adversely impacted and hedge  
3 energy costs do not merely reflect market price at a  
4 single point in time.

5 Con Edison hedges electricity,  
6 natural gas, and transmission congestion.  
7 Specifically, the company hedges its New York City,  
8 or Zone J ISO purchases natural gas required for our  
9 physical supply, from both our own generation and  
10 contracted generation, and transmission congestion  
11 from sourcing supply from outside Con Edison service  
12 area, with hedges using various platforms.

13 One example is through the  
14 Exchange. For example, ICE, which stands for  
15 Inter-Continental Exchange. One way we transacting  
16 via Exchange is that there's no credit risk, since  
17 margins may be posted daily.

18 Another platform used is the over  
19 counter or O.T.C. that is transecting directly with  
20 counterparty. The advantage of a O.T.C. transecting  
21 is that unsecured credit is provided, based on the  
22 company's credit rating, the limited need to  
23 post-collateral until credit exposure exceeds a  
24 contractual limit.

25 Finally, ISO platform is used to

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2    purchases a -- a T.C.C.s, or transmission congestion  
3    contracts. This chart shows our wholesale supply  
4    price volatility, versus the market price volatility.  
5    Based on supply mix and hedging level, as I've  
6    described earlier, it should not be a surprise that  
7    our supply portfolio is so much less volatile than  
8    the market.

9                                    During this past winter, our supply  
10   portfolio volatility was one-third of the market  
11   volatility. Our supply portfolio volatility was  
12   about thirteen and a half percent and the market  
13   volatility was about forty-two percent.

14                                    During the first quarter this year,  
15   our hedging portfolio provided a hundred and fifty  
16   dollar -- a hundred and fifty million dollar gain,  
17   which reduced the energy cost to our customer by more  
18   than twenty percent. These result demonstrated  
19   effectiveness of Con Edison's hedging program,  
20   highlighted when the market condition became extreme,  
21   like this past winter.

22                                    In summer, we believe, we have an  
23   effect and robust hedging program. We have a process  
24   in place to regularly update our hedge plan, based on  
25   performance and market conditions and we reviewed the

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2 plan with our regulators and senior management.

3 Next, my colleague, Bill Atzl, will  
4 discuss the electricity supply with cost recovery  
5 mechanisms.

6 MR. ATZL: Good -- good afternoon,  
7 Commissioners.

8 I'll -- I'll brief -- give a brief  
9 overview of Con Edison's electric supply costs  
10 recovery mechanisms. Those mechanisms are guided by  
11 two main principles.

12 First, they reflect market prices  
13 to the extent practicable. And by that, I mean we --  
14 they reflect market prices recognizing the region  
15 hedge to limit volatility.

16 Second, they pass through actual  
17 supply costs to customers. Con Edison does not  
18 profit on supply and its mechanisms are structured to  
19 pass through actual supply costs to customers, on a  
20 timely basis.

21 Con Edison uses three mechanisms to  
22 flow through its market costs of supply to  
23 full-service customers. There is a market supply  
24 charge and two adjustment factors. The adjustment  
25 factor, M.S.C. One and adjustment factor, M.S.C. Two,

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2    and I'll describe those in a bit more detail, in a  
3    couple of minutes.

4                                   I also would like to point out that  
5    in this discussion of these mechanisms, that talking  
6    about the mechanisms applicable to the vast majority  
7    of Con Edison's customers, the mass-market customers,  
8    not those that are subject to mandatory hourly  
9    pricing.

10                                  The market supply charge is based  
11    on New York I.S.O. market prices and it consists of  
12    four components. The energy component is developed  
13    for each rate class using New -- New York I.S.O., day  
14    ahead hourly prices and hourly weights based on  
15    class-specific load shapes.

16                                  Separate energy prices are  
17    developed for the New York City load zone, which is  
18    Zone J and for each of the two Westchester zones,  
19    Zones H and I. These energy prices are determined  
20    for each customer's bill, based on the market prices  
21    for that customer's billing period.

22                                  The capacity components of the  
23    M.S.C. are set based on New York I.S.O. market prices  
24    for capacity, for each six-month capability period  
25    and reflect each class' contribution to the company's

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2    capacity requirement. Winter capacity prices are set  
3    for six-month periods, commencing each November 1st,  
4    and summer capacity prices are set for each six-month  
5    period, commencing May 1.

6                                   In addition to energy and capacity  
7    components, the M.S.C. includes New York I.S.O.  
8    ancillary service charges and the NYPA transmission  
9    adjustment charge, or N-TAC. The ancillary service  
10   charges and N-TAC are based on average monthly values  
11   of those charges, as determined from available New  
12   York I.S.O. information.

13                                  And finally, these components are  
14   adjusted for system losses. The adjustment factor,  
15   M.S.C. One, recovers on a per kilowatt hour basis,  
16   the difference between the M.S.C. amounts recovered  
17   in rates and the actual M.S.C. market cost. This  
18   adjustment is assessed in the month following the  
19   month in which costs are incurred and becomes  
20   effective with the eighth billing cycle of each  
21   month.

22                                  The adjustment factor, M.S.C. One,  
23   is determined separately for New York City and for  
24   Westchester customers and it is also determined  
25   separately for residential, versus non-residential

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2 customers.

3 The adjustment factor, M.S.C. Two,  
4 is used to recover or refund hedging costs and  
5 benefits, including the above or below market costs  
6 of purchase power contracts, costs and benefits  
7 associated with financial hedging instruments, and  
8 transmission congestion contract costs and benefits  
9 associated with full-service customers.

10 The mechanism is also used to  
11 recover or refund New York I.S.O. commodity-related  
12 rebills.

13 In terms of hedging, the M.S.C. Two  
14 includes an estimate of hedging costs or benefits for  
15 the billing month and a reconciliation of the  
16 preceding months, estimated versus actual hedging  
17 costs or benefits. The M.S.C. Two is determined  
18 separately for customers eligible for mandatory  
19 hourly pricing and for all other customers, since the  
20 company does not hedge on behalf of mandatory hourly  
21 pricing customers.

22 In terms of observations, Con  
23 Edison's supply prices follow market trends closely.  
24 The M.S.C. reflects actual, day ahead market prices  
25 that were in effect during each customer's billing

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2    period, as was contemplated by the Commission in the  
3    order, in the company's 2007 electric rate case.  
4    Con Edison's supply prices are significantly less  
5    volatile than the market during periods of high  
6    market volatility, like the past winter. That was  
7    demonstrated earlier by Mr. Look.

8                                   We have identified a potential  
9    improvement, related to the one-month lag in the  
10   application of differences between estimated and  
11   actual hedging costs and benefits on customers'  
12   bills. As I mentioned earlier, the M.S.C. Two  
13   includes an estimate of hedging costs or benefits,  
14   for the billing month and a reconciliation of the  
15   preceding months, estimated versus actual hedging  
16   costs or benefits.

17                                  The M.S.C. reflects actual day  
18   ahead market prices that are in effect for a  
19   customer's billing period, which may vary from the  
20   estimated market prices used in developing the  
21   hedging estimate in the M.S.C. Two.

22                                  In the case of actual market prices  
23   that are higher than forecast, the customer would  
24   experience the higher market prices, through the  
25   M.S.C., in the current billing month, while the

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2 benefit of the increased hedging gain is realized on  
3 a one-month lag.

4 So, we are exploring alternate  
5 methods of assessing hedging costs and benefits that  
6 may provide a better alignment between actual market  
7 prices in the M.S.C. and the forecast versus actual  
8 hedging costs or benefits. The challenge, however,  
9 is to do this in a manner that is equitable to each  
10 customer billing cycle.

11 Thank you for the opportunity to be  
12 here today.

13 CHAIR ZIBELMAN: Thank you.

14 Mr. Wentlent?

15 MR. WENTLENT: Thank you,  
16 Chairwoman Zibelman and Commissioners.

17 My name is Christopher Wentlent and  
18 I'm representing the Retail Energy Supply  
19 Association.

20 COMMISSIONER BROWN: Can you move  
21 closer?

22 MR. WENTLENT: Specifically, the  
23 electric marketing side of it.

24 RESA represents sixteen companies  
25 in the energy service sector, within the energy

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2 market place. Our -- our mission is that we support  
3 competitive retail markets, that we believe  
4 competition also will create additional innovation  
5 and that, over time, it will lead to other valuable  
6 products and services. That -- that can be valuable  
7 not only for controlling commodity costs, but also  
8 controlling the actual quantity consumed.

9                   If you could go to slide four,  
10 please?

11                   CHAIR ZIBELMAN: Is your mic on?

12                   (Off-the-record discussion)

13                   MR. WENTLENT: Slide four?

14                   Just a real quick overview, and  
15 most of this has been covered today, but what -- what  
16 we think is several things occurred during this  
17 January through March time period. Record electric  
18 demand, severe cold snaps in multiple time periods, a  
19 new -- a new all-time record for winter energy  
20 demand, and -- and then couple that with high natural  
21 gas demand, that included residential heating,  
22 industrial consumption, and electric generation, in  
23 the I.S.O., as well as neighboring markets.

24                   Okay. Some of the consequences  
25 that occurred from that scenario was that the --

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2   we -- we -- we experienced some natural gas  
3   transportation cost constraints that drove up the  
4   price of natural gas. The electric transmission  
5   system that we talked about earlier this morning, in  
6   particular, saw a -- a -- congestion in -- in Zone F,  
7   the Albany area. The fact that oil fired generation,  
8   unusual as compared to past winters, became the fuel  
9   of choice and an economic choice in the -- and the  
10   dispatch part.

11                   And then finally, another thing was  
12   that New York's fuel diversity, actually provided a  
13   critical benefit, in that we are rich in nuclear and  
14   hydro and oil generation and renewable generation,  
15   that provided a benefit to the system.

16                   Lastly, conditions merited I.S.O.  
17   waiver at FERC, to request the thousand dollar cap be  
18   exempted and -- or waived, at least for a period of  
19   time.

20                   Next slide just gives a -- kind of  
21   an overview on the -- the actual heating season,  
22   heating demand days. And the reason why I included  
23   this slide is it -- it gives a -- a look at the past  
24   five years. It also gives a -- a look at the  
25   2013-2014 winter period. And then you can see, it

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2 compares a ten-year normal and a thirty-year normal.

3 So you can see that we -- we experienced one of the  
4 coldest winters in the past twenty years.

5 To -- to take that overview on --  
6 on the wholesale side and this next chart gives at  
7 least a breakdown of how the current sectors, within  
8 the retail side, are -- are composed. On a large  
9 commercial industrial, on that particular market,  
10 that the ESCO, some of which are RESA companies,  
11 represent over seventy-two percent of that  
12 marketplace and partially due to the reasons cited in  
13 your presentation, in that there's a mandatory hour  
14 pricing threshold. And so many of those customers  
15 are exposed to spot market prices and need to make an  
16 energy decision to hedge that.

17 On small commercial and  
18 residential, we kind of see a flip-flop. We see,  
19 actually those markets represented heavily by the  
20 local utility, with a far less percentage being  
21 represented by energy service companies.

22 Couple of things on product  
23 offerings, and I'll try to break this down into two  
24 different groupings. The C and I side and then the  
25 residential side.

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2 And we heard this morning, on one  
3 of the first panels, on the commercial C and I side,  
4 there are a number of offerings that are available to  
5 larger-end users. There's a -- a hundred percent  
6 fixed product. You could go a -- you could go to  
7 zero percent fixed, a hundred percent variable. And  
8 you can go a number of different types of products in  
9 between.

10 Some examples could be you layer in  
11 your hedge, over time. You could take a block  
12 percentage of your load and lock that in. You could  
13 take a -- a percentage or a -- a position, just on  
14 peak versus off-peak. So there are a number of  
15 different opportunities or options for a larger end  
16 user to exercise. And then lastly, you -- you do  
17 have a -- a variable price contract that could be  
18 available.

19 On the C and I side, it's a bit  
20 different. You generally see either fixed or a  
21 variable offering. It may have a green component to  
22 it. And Commissioner Brown asked the question this  
23 morning on what type of terms are available on fixed.  
24 Generally, the terms, at least canvassing our  
25 members, are anywhere from six months up to two to

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2   three-year type term. And they -- they did indicate  
3   that at least that activity interest on -- into a  
4   fixed rate contract has been heightened as a result  
5   of the polar vortex.

6                   On the utility side, we just heard  
7   the -- the presentation from Con Ed. It is a  
8   combination of hedging and some spot market. And  
9   it -- it is directly the result of a P.S.C. order  
10  that occurred back in 2007. Next slide.

11                  I wanted to show this slide because  
12  I think it shows the tail of two seasons and maybe  
13  helps frame some of the behavioral changes that have  
14  occurred because of the vortex. Okay? In that, if  
15  you look at Winter 2012, we saw record all-time low  
16  pricing in the New York I.S.O., driven by  
17  unseasonably warm weather that drove natural gas  
18  prices low, which ultimately ended up being low  
19  I.S.O. average pricing, as well.

20                  If you compare that to Winter 2014,  
21  we see the number for the January through March  
22  timeframe of the -- of about a hundred and forty-two  
23  dollars. Kind of we had the polar opposite, we went  
24  from unseasonably warm weather to extreme cold. So,  
25  we -- we actually, in a three-year period of time,

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2   got to see that -- really, a market have to react to  
3   different -- different conditions.

4                                   So, a couple of points I would  
5   make, comparing variable versus fixed, okay,  
6   especially from a residential point of view. In  
7   2012, because of that unreasonable -- or unseasonable  
8   warm weather, if you were in a fixed contract and the  
9   market continued to drop, you actually may have given  
10  up some energy cost savings because the market  
11  continued to drop. If you compare it to '14 and you  
12  were in a variable contract, versus a fixed contract,  
13  what you did is you basically were bought in to a --  
14  a lot of price volatility that could have been  
15  prevented through a fixed rate contract.

16                                  So, I think the key point I would  
17  make is that -- that a fixed rate contract offers a  
18  couple of different real benefits to consumers. The  
19  first one is budget and price certainty. The second  
20  one is that it does provide protection against price  
21  volatility. And so, even though you could be in a  
22  market that's dropping, that individual consumer's  
23  need still may be price certainty, more than catching  
24  that last bit of gain in the market.

25                                  And then the -- a couple of other

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2    items I would really stress, and I think it's pretty  
3    evident from -- from the morning sessions, the  
4    wholesale markets can be impacted by a number of  
5    issues. They could occur within New York, they could  
6    occur in a neighboring pool, but examples are  
7    weather, examples could be congestion in -- in either  
8    the gas or electric system. It could be  
9    infrastructure additions. Okay? So, it's really  
10   important that that -- that that -- that is factored  
11   in.

12                   And then lastly, that real-time  
13   vice -- real-time price volatility is particularly  
14   sensitive to the utility default rate to a degree and  
15   then a variable rate that would be offered by an  
16   ESCO.

17                   A couple of things we've done is  
18   at -- with the -- our members have done, deferred  
19   payment plans, alternative product offerings to  
20   absorb and pass through costs to a longer term. And  
21   a number of our companies have done education  
22   programs with consumers and used consumers to start  
23   the plan and -- and figure out there next strategy.  
24   Last slide.

25                   Okay. A couple of key

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2    recommendations we would have, one is there's  
3    definitely a need for additional education to  
4    consumers, both -- both on the default rate as well  
5    as the variable rate being offered by ESCOs. That,  
6    we -- New York needs to remain diligent on its  
7    infrastructure initiatives. They're -- they're  
8    moving ahead. It's a matter of continuing that --  
9    that emphasis.

10                   Fuel diversity is critical. This  
11    winter proved it. We need to figure out how to  
12    maintain that in particular, because it could be a  
13    competitive advantage, versus others that exist in  
14    the northeast.

15                   And then lastly, just on the  
16    electric and gas coordination, the need to continue  
17    forward with -- with tightening up the coordination  
18    between those two markets.

19                   Thank you.

20                   CHAIR ZIBELMAN: Thank you.

21                   Ms. Janzen, welcome.

22                   MS. JANZEN: Thank you,

23    Commissioners for having us here today.

24    We will --.

25                   CHAIR ZIBELMAN: I think you have

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2   to turn your mic on, too.

3                                   MS. JANZEN: Thank you for the  
4   opportunity today. Today, my colleague, Pamela Dise,  
5   and I will be sharing a few overview of National  
6   Grid's hedging portfolio, our hedging program's  
7   commodity and -- commodity rate mechanisms, in  
8   addition to a review of the experience that we had  
9   this winter and discuss the prices, the hedge  
10  benefits, and the bill impacts that our customers  
11  saw.

12                                  We'd also like to describe how  
13  National Grid is preparing for the future and how  
14  we're reaching out to our customers and assisting  
15  with high bills. And as we go through this  
16  information today, Pamela and I will be passing back  
17  to each other, covering the topics that -- based upon  
18  our expertise in supply and rates.

19                                  First, I'd like to give an overview  
20  of National Grid's Upstate coverage in Upstate New  
21  York. It's a very diverse region, stretching from  
22  the Great Lakes, the West Zone, as the New York  
23  I.S.O. calls it, the Zone A, all the way across the  
24  state to the Zone F, Capital Region, where we are  
25  today.

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2                                   This wide geographic region poses a  
3 challenge in -- in managing a supply portfolio, since  
4 they're very different market issues across these  
5 different zones, as we heard today and as we'll  
6 discuss in a little bit more detail.

7                                   We serve one point six million  
8 customers with electric delivery. And we provide  
9 electric commodity supply to almost half of that, to  
10 our customer load across the state.

11                                  And for our smallest -- smallest  
12 usage customers, the residential and the small  
13 commercial customers, we call them the mass market.  
14 For them, we offer the service of hedging or price  
15 protection of their supply costs. Our mass market  
16 customer load is over seventy percent of our total  
17 commodity supply and its supply portfolio is the  
18 primary topic of today's presentation, both the  
19 hedging protection and the bill impact discussion.

20                                  So, let's begin with an overview of  
21 National Grid's electric supply portfolio and our  
22 hedging. The objective of our hedging strategy is to  
23 mitigate volatility of -- of electric rates for our  
24 mass market customers, while still sending the market  
25 signal, in order to encourage energy efficiency. Our

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2 methodology is, like Con Ed's, to lock in fixed price  
3 swap contracts and options on a dollar cost hedging  
4 basis, adding contracts systematically, across time,  
5 diversifying all the price points.

6 Our current hedge target is  
7 fifty-five percent of our forecasted volumetric sales  
8 for our mass market customers, based on normal  
9 weather. Our hedge levels are higher in peak months,  
10 as we shape our hedges across the months, locking in  
11 more for periods like January and February, when  
12 prices tend to be more volatile and loads tend to be  
13 fluctuating significantly.

14 We continually monitor and review  
15 our hedges, analyzing their effectiveness, as well as  
16 the pricing risks and the hedge results. To manage  
17 our portfolio, we use several analytical tools to  
18 manage the volatility of our customer rates, while  
19 minimizing overall supply costs. We perform Monte  
20 Carlo simulations, running multiple trials to  
21 approximate the probability of certain outcomes, and  
22 examine the impact of our -- on our supply costs and  
23 rates, from varying scenarios of market prices,  
24 congestion, loads, and different contracts. This  
25 analysis, which is performed at least monthly,

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2        becomes the foundation of the company's hedging  
3        program and execution plans, as well as our longer  
4        term strategy for protecting our -- our customers'  
5        rates.

6                                    So now that you have an overview of  
7        our supply portfolio, Pamela will describe our  
8        commodity rate mechanisms.

9                                    MS. DISE: So, before we jump into  
10       what happened this winter and Margaret goes through  
11       our -- our portfolio and -- and how that actually  
12       impacted our mass market customers, again I'm going  
13       to focus on mass market customers, which is our  
14       residential and small commercial customers. It's  
15       important that you understand how the actual supply  
16       costs flow through to customers.

17                                   Similar to Con Ed, we had talked  
18       about before we -- we pass one hundred percent of the  
19       supply costs through the customers. We're not  
20       allowed to profit on it. And we also try to get the  
21       costs on customers' bills close to when the -- the  
22       costs are incurred by the company. So, there's  
23       really three components that flow through to our mass  
24       market customers' bills.

25                                   The first one is electricity supply

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2       costs. And what that is -- is the actual -- we set,  
3       three days before the beginning of the month, the  
4       forecast market price, based on NYMEX futures. So,  
5       we set that three days going into the month and  
6       that's a fixed rate through the entire month.

7                                   The next one is the new hedge  
8       adjustment. Those are the hedges that we're  
9       talking -- that we enter into and Margaret's going to  
10      talk about that in a little bit. And we actually use  
11      the same market price forecast, so we're lined from  
12      the market price forecast period that we're looking  
13      at. And based on that market price forecast, we're  
14      able to determine what the value of those hedges are.  
15      Those value -- the value of those hedges are  
16      socialized across all of our hedge commodity  
17      customers.

18                                  And then there's the  
19      reconciliations. This ensures that we true up,  
20      exactly to our commodity expense. And there's two  
21      basic different true-up mechanisms. One actually  
22      trues up the forecast to the actual market price,  
23      both in the -- the electricity supply cost and in our  
24      hedging forecast. And then there's a -- and that's  
25      done on a two-month lag and it's also socialized

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2 across all of our hedge mass market commodity  
3 customers. And then there's also a two-month lag  
4 true-up between actual commodity revenue and actual  
5 commodity expenses.

6                   So, those the components of the  
7 electricity-commodity side of customers' bills. I'll  
8 turn it back to Margaret to go through the portfolio.

9                   MS. JANZEN: So, with that  
10 overview, we could turn to what happened this winter.  
11 This is something that we've seen several times  
12 today, that the wholesale electric market saw an  
13 unprecedented increase this winter.  
14 Here, we're -- we're showing Zone C, the Central Zone  
15 and the increase of the hundred twenty-two percent  
16 over last year.

17                   We had seen some market and price  
18 increase in the winter prior, from the relative lows  
19 of the Winter '11 or '12. However, the market price  
20 increases, as seen here, was much larger and the  
21 monthly average prices more than doubled over the  
22 prior winter. And it wasn't just Zone C, it was also  
23 Zone A, all the way in the west as -- as well as Zone  
24 F significantly impacted.

25                   So, with this huge increase in

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2 market prices, how did our hedge perform? Well,  
3 going into the peak winter months of January and  
4 February this past winter, we had locked in prices  
5 for sixty percent of our forecasted mass market  
6 customer load at a hedge target, which had been  
7 increased over the prior winter and spread across  
8 different zones. Our winter hedges included physical  
9 hedges, seen here in the blue, and as well as swap  
10 and option contracts layered in over many months  
11 prior to the winter.

12 These financial hedges for the  
13 winter peak months of January and February produced  
14 over sixty million dollars in savings for mass --  
15 mass market customers, helping to offset the increase  
16 in market prices.

17 And now, Pam will take us through  
18 those market prices and how they were reflected in  
19 the bills.

20 MS. DISE: So, what this chart is  
21 trying to show is there's basically three different  
22 lines. The blue line in the middle shows the  
23 delivery component. And this is average across all  
24 of our upstate zones, for residential customers. So,  
25 you can see the blue line is -- is relatively flat

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2 and -- and very stable.

3 The green line, below, flows  
4 through those commodity components that I had talked  
5 about before. The E.S. costs, the new hedge, and all  
6 the reconciliation mechanisms. And you can see it's  
7 much more volatile and especially over this last  
8 winter when you get down into the December, January,  
9 February, and March timeframe. You can see how it --  
10 it jumps around.

11 I -- I think I neglected to mention  
12 earlier that when we do the forecast for the market  
13 price and pass that through the customers' bills,  
14 that is done on a zonal basis. So, the market price  
15 forecast in -- in Zone A will be different than the  
16 market price forecast in Zone F. All of the hedges  
17 and reconciliation mechanisms are done on a -- on a  
18 socialized basis. Next slide.

19 And so this is a -- this is a  
20 different chart that basically shows what happens  
21 this winter. It's broken in to two components.  
22 Right on the top hand side, that's Zone C, which is  
23 our Central Zone. Down below, is Zone F, which is  
24 our Capital Zone, where we are today, and it's  
25 representative of six hundred kilowatt hour

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2   customers, what we use for a typical customer.

3                   So, what you'll see here, again, is  
4   the blue is relatively flat. And you'll see the top  
5   on the green, for the Zone C is -- is jumping around.  
6   And you can see in March, it goes much higher and --  
7   and both the Zone C and the Zone F -- and I'll  
8   explain that on the next slide because it has to do  
9   with our reconciliation mechanisms and our lag.

10                  If we could just kind of revisit  
11   what happened over the winter, we've learned through  
12   the whole day, you know, the -- the wholesale market  
13   prices kind of jumped all around in the January and  
14   February timeframe. And if you remember how I  
15   mentioned how we set our rates in January, we set  
16   them at the beginning of December.

17                  So, we set those rates. And what  
18   happened in January -- January was very cold, the  
19   prices stayed very high for -- for a long period of  
20   time during January. So, we set the market price too  
21   low, right, based on the -- the NYMEX futures, as  
22   well as the value of the hedges. That gets  
23   reconciled in the March timeframe, so that's why you  
24   see it jump up a bit there.

25                  So, I -- the other thing I wanted

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2    to mention on this slide, I'm sorry, you can see --  
3    and it was -- it was talked about earlier from --  
4    from other parties during the presentation --  
5    presentations today, you can see between January and  
6    February, those charts are relatively flat. That was  
7    the -- the event that we actually deferred thirty-two  
8    million dollars, when we saw the February prices  
9    going really high, and we asked to have a deferral,  
10   the thirty-two million dollars to mitigate that in --  
11   in the customers' bills for the month of February.  
12   And that's deferred for future recovery.

13                                Can we go to the next slide,  
14   please?

15                                And so, what's really happening and  
16   why you didn't see the big jump up in January and in  
17   February, which we just talked about and -- and why  
18   you're seeing it jump up in March, has to do with how  
19   we bill and our reconciliation mechanisms. So, we  
20   talked about it being forecast on a monthly basis,  
21   prior to, and then reconcile two months later. And  
22   that's what this chart is showing.

23                                On the left-hand side of the  
24   chart -- this happens to be Zone C, which is our  
25   Central Zone. So, on the left-hand side of the

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2 chart, the blue bar is our forecast in market price.

3 So you can see that a little above six cents, right  
4 around seven cents.

5 The green is our hedges, so the  
6 value of our hedges for that month was a benefit to  
7 customers. So it actually reduced their electricity  
8 supply costs for that month. And then the January  
9 reconciliations were a -- a small benefit for that  
10 month. And we're reconciling costs and revenue, in  
11 actual forecast for November, so that's what's  
12 flowing through here.

13 The gray shows you what actually  
14 happened to the commodity prices in January. If we  
15 actually charged what happened in the market, in  
16 January, we would have been charged in that gray bar.

17 Now we get to March. What's  
18 happening in March? Again, same thing. The market  
19 price forecast is set three days before March. And  
20 you can see where that -- that price comes in, right  
21 around the eight cents, but then you see a huge  
22 reduction on the hedging side, right. That's the  
23 reconciliation of the hedge. Remember we -- we -- I  
24 said before, we line -- we align our forecast, both  
25 for the market price, as well as the hedges?

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2 Well, so we undershot what the  
3 price was going to be for January, based on where the  
4 futures were, right three days before. That turns in  
5 to undervaluing what those meant -- those hedges  
6 would've been, so you see that in the hedge when you  
7 see the March. And then the March reconciliations,  
8 represent the difference -- the large majority of it  
9 is the difference in the gray bar for January and  
10 what we actually charged customers in January.

11 I'm going to turn it back over to  
12 Margaret and we're going to talk about some  
13 observations for this winter and -- and what we're  
14 going to plan on doing, going forward.

15 MS. JANZEN: First, one of the  
16 things we observed, in addition to the cold weather,  
17 that it -- that was the driver of the increase in the  
18 natural gas prices, which impacting a large portion  
19 of the New York generation, depending on that fuel,  
20 and then the increased electric load, in addition to  
21 the gas prices, were the driver of the power prices  
22 across the state and, indeed, the whole northeast  
23 region.

24 These natural gas factors were  
25 compounded by the electrical congestion that we

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2   experienced across the central east transmission  
3   interface, as described by Wes Yeomans, and drove  
4   those prices in Zone F up to the record levels.

5                                   The second observation we made was  
6   that the volatile winter prices could vary greatly  
7   from the forecasted market prices, especially when it  
8   happened within the month after the rates had been  
9   set. And this created a difference, which should  
10  significantly increase bill volatility, when it got  
11  reconciled on a two-month basis.

12                                  And then related to that, we also  
13  saw that the regional spreading of the reconciliation  
14  of that forecast difference, then could start --  
15  could -- could increase volatility in certain zones,  
16  more than others.

17                                  Fourth, we -- we observed that Zone  
18  F's congestion component, that we described a bit  
19  today, earlier, became much more volatile during the  
20  winter, exposing the Zone F customers to high  
21  congestion spreads, on top of high underlying energy  
22  prices.

23                                  And finally, our -- our hedges  
24  yielded gains as market prices rose. They yielded  
25  eighty-six million dollars for the period, November

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2    2013 through March 2014, a great benefit for our  
3    customers. However, the benefits were spread across  
4    all the zone and, therefore, diluted the  
5    effectiveness to the Zone F customers' price  
6    protection.

7                                    So, after the experience of last  
8    winter's prices and rates and analyzing the  
9    contributing factors, we undertook a thorough review  
10   of our supply portfolio hedging and our commodity  
11   rate mechanisms. We are concerned that future  
12   prices, as well as month to month impact on our mass  
13   market customer rates. To that end, we have  
14   developed a comprehensive solution that we propose to  
15   better manage volatility from both a supply portfolio  
16   and from a commodity rate mechanism perspective.

17                                   So, looking ahead to next winter  
18   and -- and also to the summer that is right before  
19   us, we continue to be concerned about market rates,  
20   since the fundamental infrastructure issues that  
21   constrained the supply still exist. We continue to  
22   vigilantly monitor the market and our hedges and have  
23   diversified and increased our hedging levels for the  
24   upcoming winter, as well as for this summer.

25                                   Enhancements to our supply

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2 portfolio include separate hedging for Zone F, that  
3 will better allow alignment of those hedges to that  
4 zone. But increasing the hedges is not enough. We  
5 need more tools to better manage volatility on a  
6 zonal basis.

7 So, the company has developed and  
8 filed, just yesterday, proposed modifications to our  
9 commodity tariff. I'll describe those changes.  
10 First, we propose to provide zonal hedging rates, in  
11 addition to the existing zonal market rates, the  
12 E.S.C., so that the hedging benefits or costs can  
13 flow through to the specific zones that the hedges  
14 are -- are protecting. In this way, Zone S -- Zone F  
15 hedges would be attributed specifically to Zone F  
16 rates.

17 In addition to zonal hedging rates,  
18 we also propose to reconcile by zone, the difference  
19 between the forecasted and actual market rates. This  
20 will allow the company to reflect the actual zonal  
21 prices, ensuring that those customers receive the  
22 credits or charges incurred in that zone.

23 We've also proposed the flexibility  
24 to delay reconciliation recovery, so that the company  
25 has more flexibility in the timing of its

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2        reconciliation of revenue and expenses for its mass  
3        market customers. In the case of extreme market  
4        volatility, the company would have the ability to  
5        spread out monthly reconciliations over two or more  
6        months, rather than the current one-month period.

7                                    In summary, the zonal hedging rates  
8        and the zonal reconciliation of forecasted rates work  
9        together with the separate hedging portfolios, with  
10       the tariff flexibility and the reconciliation  
11       recovery, would allow the company the necessary tools  
12       to better help mitigate the rate volatility for mass  
13       market customers.

14                                   In developing our proposal, we  
15       researched best practices of other utilities and  
16       benchmarked ourselves against others. We also  
17       performed analyses to determine the impacts of the  
18       various modifications and how they would work  
19       together.

20                                   We ran a backcast analysis, using  
21       actual market data, for several scenarios, to  
22       determine what modifications could have effectively  
23       mitigated the high rates last winter. In this  
24       analysis, we did exclude the thirty-two million  
25       dollar deferral that we had in February, in order to

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2 better determine the full impact of what the winter  
3 prices would be on the retail rates.

4 Among these scenarios, we analyzed  
5 a separate supply portfolio, including specific  
6 hedges for Zone F, along with zonal hedging rates to  
7 allocate the benefits and costs to those zones. In  
8 addition, we modeled the change to reconciliation  
9 tariff, which would have provided flexibility in the  
10 months for recovery of the reconciliations, a tool  
11 that might have been used when January market prices  
12 skyrocketed midmonth above the forecasted rate, thus  
13 impacting March with the large reconciliation.

14 The chart on this graph shows -- on  
15 the top right, shows the backcasted typical  
16 residential bill, on a backcast basis, for Zone C,  
17 with the green and blue bars, and how this scenario  
18 for modifications could have mitigated month-to-month  
19 bill impacts. This is seen in contrast to the black  
20 line, which is the actual bill impact that we did see  
21 this winter.

22 The backcast shows that the  
23 volatility for March and April bills could have been  
24 significantly mitigated with the proposed  
25 modifications. And this would have allowed also for

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2 a modest increase over the next two months, to  
3 recover the balance of the reconciliation, once we  
4 exercise the tariff flexibility.

5 On the bottom right, the backcast  
6 analysis for Zone F, with the scenario of  
7 modifications, shows that the month-to month  
8 volatility could have been significantly mitigated  
9 from December through April and would have been fully  
10 reconciled by April, if we had exercised the tariff  
11 flexibility on the reconciliation recovery.

12 According to our backcast analysis of this scenario,  
13 our customers in Zone F could have benefited from  
14 over thirty percent reduction in the actual costs  
15 that they saw for January through March.

16 As a note, in another one of our  
17 scenarios that we analyzed, we found that an increase  
18 in Zone F hedges was not enough to significantly  
19 mitigate rate volatility. It took both tariff  
20 changes, in order to make any significant difference,  
21 the zonal rates for the hedging and the  
22 reconciliation, in addition to the tariff  
23 flexibility, on the reconciliation recovery.

24 And now, Pamela will cover what  
25 National Grid is doing for our customers that are

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2 experiencing the high bill impacts.

3 MS. DISE: I know the red light's  
4 on, so I'll just take a couple of minutes to go  
5 through some of the highlights of the next slides  
6 because I know these slides have been before the  
7 Commission before, so that -- they should look very  
8 familiar.

9 The company recognizes this winter  
10 has been very difficult for some of our customers.  
11 We know the prolonged extreme cold temperatures that  
12 we've been talking about, the volatility of  
13 electricity market, as well as the high prices that  
14 they're seeing, really makes us want to reach out  
15 to -- to the stakeholders and -- and -- and -- and  
16 work with them. So, the next few slides are going to  
17 go through some of the things that we're doing.

18 Okay. One of the -- one of the  
19 most valuable tools that we have are -- is our -- is  
20 our consumer advocacy group. This is the -- the  
21 outreach group that actually works with some of our  
22 low-income special-need customers and are offering  
23 first-of-its-kind customer assistance, sorry,  
24 expositions to connect customers with all low-income  
25 organizations in a single location.

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2 Credit and collections programs,  
3 they've increased the outbound calls and -- and  
4 payment agreements, different payment options that  
5 we're offering customers.

6 The budget plan was heavily  
7 promoted. The budget plan, in itself, actually  
8 smooths out customers' bills, so where it's hard to  
9 see spikes, all they need to do is -- is call in and  
10 they can actually take those and actually flatten  
11 their bills going out.

12 And also, we continue to promote  
13 our energy efficiency programs, which will have a  
14 permanent reduction in customers' bills.

15 Margaret has also talked about the  
16 hedging strategy, so I won't go through that, as well  
17 as the thirty-two million dollar deferral, which I  
18 also won't go through that, too. We've already  
19 discussed that.

20 And so, the last slide, actually,  
21 U.I.U. did a really great job this morning going  
22 through this slide for me. This is the emergency  
23 customer care program that is flowing through our  
24 customers' bills in May. U.I.U. mentioned it. It's  
25 a -- it's the corporate contribution of a million

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2   dollars through our Care and Share Program, as well  
3   as one-time emergency payments applied to customers'  
4   bills, two hundred and fifty dollars to about four  
5   thousand of our HEAP eligible customers and another  
6   twenty dollars to our -- about a hundred and ten  
7   thousand low-income customers.

8                   And again, I already mentioned the  
9   targeted outreach to low-income customers.

10                  CHAIR ZIBELMAN: Thank you.

11                  I have a few questions, so let me  
12   just start with you, Mr. Badgley.

13                  We -- this is a question I probably  
14   could have asked others, but let me see if -- if you  
15   know if there's an answer, or if other panelists have  
16   an answer, that would -- that would be terrific.

17                  One of the things that occurred  
18   during the course of today, we've been talking about  
19   the fact that the polar vortex, the cold weather has  
20   created obviously huge demand, which resulted in high  
21   prices. Is it possible to backcast that and figure  
22   out, if we had sort of normal winter weather for this  
23   region, what the prices would have been like and how  
24   much of this scarcity is driven by a weather event?

25   I'm not saying that this was a one-time, because I am

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2 concerned that it might not have been a one-time, but  
3 is there a way to backcast that and figure out how  
4 much volatility was driven by unusual weather as  
5 opposed to that we're starting to see that we're  
6 eating up our excess on distribution supply?

7 MR. BADGLEY: I think that's a -- a  
8 very good question and I, you know, am not too  
9 familiar with the ideas. I'm sure that there are --  
10 are plenty of people out there who are -- who are  
11 looking at -- at that kind of thing and, you know,  
12 something that would be of value.

13 You know, it's -- it's hard to tell  
14 because, you know, there are just so many variables.  
15 You know, especially in the -- in the spot market  
16 that we're covering from day to day, so many  
17 variables that might play into the pricing and kind  
18 of, you know, bringing it -- bringing it to a -- a --  
19 you know, a normalized weather condition. I -- I  
20 think it might -- it would give you some -- some  
21 ideas of where the price may have been, but probably  
22 has some limitations, as well. But -.

23 CHAIR ZIBELMAN: Okay. Any --  
24 anyone else want to --?

25 MR. LOOK: Yeah. I think that

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2    would be a very difficult exercise because while we  
3    can limit our exercise to study just the northeast,  
4    the difficulty with this incident is -- is throughout  
5    the whole U.S.A. So it's very difficult trying to  
6    normalize and try to -- to find a -- a winter in the  
7    past, or something like that, to -- to try to --  
8    to -- to gage this what would the volatility be under  
9    sort of more of a normal winter.

10                                So, again, if it's this event,  
11    which is limited to the northeast, I think we  
12    could -- that exercise is probably more doable. But  
13    because it's so vast, so -- it's become very  
14    difficult.

15                                CHAIR ZIBELMAN: Okay. Mr.  
16    Wentlent, for -- a question for you because you were  
17    talking about fixed products and I -- I think you  
18    probably heard the early conversations today from the  
19    consumer panel about the fact that they're looking at  
20    probably three to five years, but there's an issue  
21    potentially about your ability or -- or the  
22    willingness of retailers to offer fixed pricing to  
23    mass market because of credit issues and/or to  
24    smaller consumers.

25                                Is that -- I mean, from your

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2 perspective, is -- is that a limiting factor or is  
3 there a limiting factor and what -- what might that  
4 be, in terms of the willingness of retailers to -- to  
5 offer fixed pricing?

6 MR. WENTLENT: And I'm speaking  
7 just for our members.

8 CHAIR ZIBELMAN: Your group, right.

9 MR. WENTLENT: Yeah. They're --  
10 they're definitely willing to offer fixed product  
11 pricing. And the term length is up to two years.  
12 Two to three years for residential. As we heard this  
13 morning on the panel, you could see C and I type  
14 deals that could go out to a three to five-year  
15 period of time.

16 So, I -- I do believe that a -- a  
17 fixed price offering is available and would be  
18 available. Would it be for every single ESCO in New  
19 York, I'm not sure. But I -- I -- I definitely  
20 believe that it -- it is available.

21 CHAIR ZIBELMAN: But there -- I  
22 mean, for obvious -- is -- there's a credit premium  
23 associated with that. Is there? In terms of  
24 pricing, if we were to look at pricing, from  
25 residential to commercial, would we see reflected in

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2 that a credit-risk premium?

3 MR. WENTLENT: I -- I --.

4 CHAIR ZIBELMAN: From the  
5 perspective of the ESCO?

6 MR. WENTLENT: Okay. I -- I think  
7 you would see a premium for the fixed contract.

8 CHAIR ZIBELMAN: Right.

9 MR. WENTLENT: I -- I think I'd  
10 have to go back and check on the credit piece,  
11 because it -- it may vary by company. And I  
12 honestly -- I don't know the answer.

13 CHAIR ZIBELMAN: I mean, one of the  
14 things that -- that's striking me, and I -- I just  
15 had a question, I guess, for the utilities.

16 You know, we -- we -- both of  
17 you -- both companies have talked about the fact  
18 that, you know, you're trying to manage volatility  
19 through hedge products. And one of the things that  
20 may be a difference is that because you don't have a  
21 fixed obligation, you don't have, as I -- a  
22 market-to-market obligation, right, to -- to market  
23 against any value at risk, which if you had a fixed  
24 obligation on the sale side, you would have to worry  
25 about, you know, where the price -- what you would

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2 need to do to cover that fixed obligation.

3 And so that -- I'm just curious, in  
4 terms of that, is that the value, obviously, of  
5 having hedges and not having a fixed price, is that  
6 there's not a tendency to over-hedge, in the fear  
7 that if you're, you know, that your prior price  
8 would -- would -- has enough cushion in it? Is  
9 that -- is that a fair statement? But I'm curious as  
10 to how then, you make a determination of how much you  
11 should hedge around volatility and what's the -- what  
12 do you benchmark against, if it's not a internal  
13 value at risk.

14 And the only reason I'm asking that  
15 is I'm kind of curious about this question of whether  
16 fixed prices would result in lower rates or just  
17 having good hedges in place result in lower prices,  
18 bills to consumers?

19 If you follow my logic, which may  
20 not be logical, but --.

21 MR. LOOK: Maybe I'll take -- I'll  
22 take a shot at this. I'm not sure.

23 CHAIR ZIBELMAN: I'm -- I'm  
24 curious.

25 MR. LOOK: Yeah.

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2 CHAIR ZIBELMAN: I mean, if you --

3 MR. LOOK: Yeah.

4 CHAIR ZIBELMAN: -- if you had a  
5 fixed price, you would have a -- you had to risk a  
6 loss -- you would have potential losses.

7 MR. LOOK: We do  
8 market-to-market -- we do monitor our portfolio every  
9 single day. That, we do.

10 The way we hedge, we -- we do also  
11 do an analysis, look at how our portfolio -- total  
12 portfolio, versus the market over time. And it  
13 really come down to the -- to the -- the very  
14 difficult exercise because in trade -- there's a  
15 tradeoff between volatility and cost. There's a --  
16 you can hedge a hundred percent, you get no  
17 volatility, but that's going to be very costly. So,  
18 there'd be some -- some tradeoff there. There'd be  
19 diminished return here.

20 So, we tried to, I guess, look  
21 for -- also Commission guidance here and we felt  
22 that, within that range, between fifty. We also have  
23 option to -- you have a option. We get up to as high  
24 as seventy percent hedge. So, within that -- we  
25 think we're in pretty good spot already of -- right

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2 now.

3 So, it doesn't mean it has to be  
4 that case. We'll always continue to always monitor  
5 our performance, so we can -- 0:00:17 changing.

6 COMMISSIONER BROWN: Audrey, can I  
7 follow up on that?

8 CHAIR ZIBELMAN: Yes, certainly.

9 COMMISSIONER BROWN: It -- it was a  
10 question for Con Ed and it just flies right into  
11 here.

12 If I looked at your pie chart  
13 correctly, on hedging the supply mix, an awful lot of  
14 that looks like legacy PURPA contracts. So, it  
15 really hasn't been an affirmative hedge. It has been  
16 you were hedged from contracts that were signed  
17 fifteen -- twenty years ago. And I see an awful lot  
18 of them that are expiring in 2014, '15, '16, and '17.

19 So, I think the question that  
20 Audrey was asking, which is how are you going to  
21 decide how much your hedge is really going to come to  
22 the fore for Con Ed. I don't think Grid. They kind  
23 of got rid of those contracts a long time ago. It's  
24 really going to come the fore, because you're going  
25 to be losing, it looks like literally, thousands of

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2 megawatts of hedges over the next two to three years  
3 and quite a few this winter, it sounds like.

4 MR. LOOK: There's -- the first contract is expiring,  
5 coming up is the Selkirk contract expiring the end of  
6 August this year. The other contract will remain  
7 through the next winter.

8 You're absolutely correct. That's  
9 one of the thing that we've been doing -- always been  
10 doing is the supply planning. And one of the aspects  
11 is that beside the volatility, we recognize the fact  
12 that value -- that physical -- or physical asset  
13 would bring to the table, as far as reducing  
14 volatility. And that, we will be looking into how to  
15 replace those contracts as they expire.

16 COMMISSIONER BROWN: I got others,  
17 but you were on a roll.

18 CHAIR ZIBELMAN: Well, yeah, I --  
19 I -- and let's -- I want to talk to -- same question  
20 to Grid, and actually the same question that Garry  
21 just asked because that was exactly one of the  
22 question I have, is, you know, we're -- we've been  
23 talking about financial hedges. What about physical  
24 hedges and I'll just throw this out.

25 And how does this play into this

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2    idea of should the electric utilities or the ESCOs be  
3    looking at physical hedges in the form of firm  
4    pipeline capacity, to drive demand, to drive down the  
5    volatility around gas? Is that -- I'm not  
6    suggesting -- there's -- there's nothing behind this  
7    question other than a question to ask you to get your  
8    thoughts on.

9                   MS. JANZEN: If I could go back to  
10   the question about the hedge levels and how we  
11   determine it, and the fixed pricing. To the extent  
12   that the -- the -- the forecast gets updated and  
13   nature of the load that we're serving has a certain  
14   amount of migration in it, and as we do our scenario  
15   analysis and look to see of the variability of that,  
16   it -- there's no perfect hedge level.

17                   It's -- it's more about sending the  
18   price signal and who is the protection for and -- and  
19   looking at the customer set we are providing this  
20   protection to, sending that market signal on a  
21   monthly basis. However, mitigating it with a portion  
22   of it offset on a monthly basis, has -- seems to have  
23   the right mix of -- of balancing the two.

24                   And then as well as -- as King had  
25   pointed out, the -- the cost of hedging themselves.

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2    The options -- the -- the -- these, basically,  
3    insurance premiums, locking in swaps, which tend to  
4    be over multi-months, has a tendency to flatten out  
5    rates and then, therefore, take away that market  
6    signal.

7                                   So -- so, to the extent that that  
8    is something that is very dynamic, the -- the loads,  
9    making sure the -- the correlations are making sense,  
10   the right hedges.

11                                  But to the question of the  
12   financial versus physical hedges, at one point,  
13   Niagara-Mohawk had quite a bit of physical hedges in  
14   the form of nuclear and -- and hydro. And -- and as  
15   those hedges came off, on a -- on a predetermined  
16   basis, the -- when the company was seeking an  
17   effective low-cost execution manner, in which to  
18   hedge, the -- the financial markets lend themselves  
19   to it. We are able to leverage good credit ratings  
20   with -- and -- and can use a standardized contract.  
21   So it effectively allows us to -- to lock in prices  
22   and -- and to do that on a low cost and -- and  
23   effective manner on -- on a relatively short-term  
24   basis. It takes -- it doesn't take much to -- once  
25   all the credit terms have been established, it's very

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2 easy to execute.

3 But to the extent that the physical  
4 hedges, themselves, you know, have -- have, indeed,  
5 benefits, especially with the locational benefits,  
6 indeed, that's something that our company does look  
7 into and -- and -- and does -- would consider as part  
8 of the portfolio because it can fit into -- fit  
9 into -- for -- for -- for a firm commitment, it -- it  
10 would fit well into the portfolio.

11 CHAIR ZIBELMAN: And Chris, let me  
12 ask you the same question. In terms of hedging  
13 strategies of your groups and also the -- you know,  
14 the portfolio approach, are you -- are you looking  
15 at -- I mean, do you -- well, first question, I  
16 guess, is -- is it a combination physical and  
17 financial? And then, secondarily, is that driven by  
18 the willingness of the demand market, which I think  
19 the problem, I think we can all sort of observe, is  
20 when prices are dropping, consumers are lulled into a  
21 feeling, like why would I lock into a price if prices  
22 are going down and then when the prices get up,  
23 they -- they wish they were, but then prices are  
24 higher, so the cost of locking in a fixed price just  
25 went up.

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2 And so how do we -- I guess,  
3 that -- to me, the ultimate question is how do we  
4 establish, recognizing that these prices are always  
5 going to go up and down, a -- a culture of consumers  
6 really thinking about that there's a -- a value in  
7 having a fixed price for energy, even if it appears  
8 in one season or another, they're paying too much  
9 because overall they may be -- there's a lot built  
10 into these assumptions, but that's my assumption,  
11 that there's value there against price volatility,  
12 but there's a reluctance when prices are low and a  
13 difficulty when prices are high.

14 So, the question is how do we overcome that and what  
15 are your thoughts?

16 And I'll throw that out to  
17 everybody. One is do you agree and secondly, what's  
18 your thoughts on what we might do?

19 MR. WENTLENT: I think on the -- on  
20 the actual physical asset side, there are some of our  
21 companies that actually own physical assets in New  
22 York and in the Northeast.

23 CHAIR ZIBELMAN: So, they have a  
24 natural internal hedge?

25 MR. WENTLENT: So, they do have

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2 a -- a natural internal hedge in a -- in a volatile  
3 situation.

4 The -- the -- the other thing  
5 that -- that was talked about this morning was is  
6 there a need to look at some of these fuel types  
7 differently, going forward. Okay? And it may not be  
8 a -- a long-term hedge arrangement. It may be a  
9 different type of market product that needs to be  
10 considered. So those assets are in the market, a  
11 fuel -- fuel firmness type product or a special  
12 winter capability type arrangement that would allow  
13 one to keep fuel diversity in -- in the market place.

14 It provides somewhat of a hedge  
15 anyways, in the winter period, because that asset's  
16 functioning. And then you still, I think, gain some  
17 of the other advantage of allowing the financial  
18 markets to be very competitive on that -- in a  
19 month-in/month-out basis that you may want to -- to  
20 maintain.

21 CHAIR ZIBELMAN: I think I'll think  
22 about it for a minute, but I'll turn the mic over.

23 COMMISSIONER BROWN: I just had a  
24 couple of -- couple questions.

25 Chris, one -- there was a bullet

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2 that you actually didn't really expound on, because  
3 you ran out of time.

4 MR. WENTLENT: Yeah.

5 COMMISSIONER BROWN: Which was  
6 talking about uplift and maybe this is one for Wes,  
7 as well, to think about.

8 Did we see a rise in uplift and --  
9 what the bullet said is uplift's really bad because  
10 ESCOs that hedged still have to pay the uplift cost.  
11 Whereas, if it was actually in the market price, they  
12 would have benefited by the fact that their -- they  
13 had hedged themselves and they lose that benefit of  
14 the hedge, if I understand the concept correctly.

15 And I know it was a big problem in  
16 the early part of the market, that a lot of costs got  
17 stuck in uplift, that really should've been in the  
18 market and NYISO's done a great job of switching  
19 those. But did we see that phenomena again in  
20 January through March, where uplift costs increased  
21 because of the strange circumstances that were going  
22 on?

23 MR. WENTLENT: I -- I actually  
24 think you -- you saw that more in -- in P.J.M than  
25 you ended up seeing in New York. There was at least

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2 a concern, initially, if units had to bid above the  
3 thousand dollar bid cap, that that would be handled  
4 through a discretionary acts committee decision at  
5 the I.S.O. and then that cost would be allocated back  
6 through -- through uplift.

7 Kind of the -- the principle being  
8 that, if -- if you had an end user who had hedged,  
9 okay, and was in a fixed contract, then you have an  
10 uplift charge that may not have been hedgeable. And  
11 so it -- it acts as a deterrent, in a sense, for  
12 that -- that end use customer. That -- that's kind  
13 of the principle.

14 CHAIR ZIBELMAN: Wes, go ahead.  
15 You can sit down.

16 MR. YEOMANS: Yeah. Well, I'm  
17 hoping not to stay here too long.

18 CHAIR ZIBELMAN: Welcome back.

19 MR. YEOMANS: Actually,  
20 unbelievably, the uplift in January, and it was  
21 significant in some -- some other R.T.O.s, in New  
22 York, was actually negative. The state-wide uplift  
23 for January was negative. There was a positive cost  
24 component for the generator supplier, not a huge  
25 amount, but that was offset by some B.M.T. error,

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2 some balancing market congestion residuals in a  
3 real-time market and for the -- the residual loss  
4 impact, that's usually negative or a refund.

5 So, the two refunds offset the  
6 power supplier positive piece. The net for the  
7 state, I -- I believe was -- was just slightly  
8 negative for January.

9 COMMISSIONER BROWN: So, hopefully,  
10 there'll be no phenomena that happen this summer --  
11 or this winter that's going to discourage hedging by  
12 people next year because of that fear? That's what  
13 I -- hopefully, I'm hearing, which is good.

14 Okay. And Patrick, I just have a  
15 really generic question for you.

16 Can you explain to me how a six  
17 dollar commodity price turns into a hundred and fifty  
18 dollar product price in New York City? What happens?  
19 Where -- where are the steps that these costs go up,  
20 because obviously congestion, et cetera? Give me the  
21 layman's version.

22 MR. BADGLEY: Yeah, sure. Yeah.

23 I'll do my best.

24 So -- yeah, you know, clearly  
25 congestion is the big driver and basically, you know,

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2 when capacity is -- when someone who holds firm  
3 capacity, you know, turns that over to the secondary  
4 market, you can essentially get into a situation  
5 where, you know, that -- the person who can own  
6 that -- who owns that commodity and owns the -- the  
7 pipeline capacity, can, you know, chew the --.

8 COMMISSIONER BROWN: Like having  
9 Springsteen tickets.

10 MR. BADGLEY: Right. Right. Can  
11 sell what the market bears, yes, so --.

12 COMMISSIONER BROWN: He's just in  
13 town, that's why I said that.

14 CHAIR ZIBELMAN: Did you have  
15 tickets?

16 COMMISSIONER BROWN: No. And they  
17 would've cost more than face value if I wanted them,  
18 so --.

19 MR. BADGLEY: Right. And -- and --

20 CHAIR ZIBELMAN: Okay. Go ahead.

21 MR. BADGLEY: -- you know,  
22 because -- because natural gas prices aren't --  
23 aren't regulated, you know, that -- that -- that can  
24 go up. It -- you know, as you saw this year in  
25 the -- in the ICE example, once that -- that roof was

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2 lifted, you know, it certainly -- certainly started  
3 happening pretty quickly thereafter, so --.

4 COMMISSIONER BROWN: And it's  
5 basically, because there's consumers that are willing  
6 to spend that, to get the product.

7 MR. BADGLEY: Right. Exactly.  
8 Because -- you know, they may -- they may face  
9 penalties of their own, if they're -- you know, if  
10 it's a generator that's not able to run, you know, if  
11 it's an -- an L.D.C. that's not meeting its -- you  
12 know, meeting what it needs to meet. So, it's a --  
13 yeah, you know, in some cases nobody, you know, would  
14 be crazy about paying that price, but --.

15 COMMISSIONER BROWN: So, who's  
16 making the money?

17 MR. BADGLEY: Well, you know, it  
18 can be -- it can be a marketer, you know, someone who  
19 owns that capacity or it can be, you know, the -- the  
20 commodity owner, the -- you know, in some cases,  
21 the -- if a producer would own that capacity, then  
22 the -- the producer, you know, has that power.

23 CHAIR ZIBELMAN: So, to follow up  
24 on that, the solution against that is to have the  
25 players who have the obligation or -- or -- or

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2 responsibility, to have someone else earn more firm  
3 capacity; right?

4 MR. BADGLEY: So -- right.

5 CHAIR ZIBELMAN: Who -- who --  
6 whoever.

7 MR. BADGLEY: You know, they --

8 CHAIR ZIBELMAN: I mean --.

9 MR. BADGLEY: -- you know, holding  
10 firm capacity, you know, would be a solution. It's  
11 a -- you know, a -- as we talked about today, you  
12 know, it can be a -- a pricier solution. You know,  
13 the -- the addition of capacity as, you know, more  
14 pipeline capacity being built into these -- into  
15 these heavy demand areas.

16 CHAIR ZIBELMAN: Further questions?  
17 No?

18 Okay. Well, thank you to these  
19 panelists and -- and everyone across the day. I --  
20 it's been certainly an informative day. And I really  
21 appreciate everyone's attention and -- and the time  
22 you spent in delivering the information.

23 The -- just my observations, and  
24 these are just sort of initial observations, but also  
25 some, probably, requests going forward.

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2                                   It does seem to me, and maybe this  
3 is a question as well, but it does seem to me we are  
4 entering into a new time. And this is a cyclical  
5 industry and we -- we do have periods where we have  
6 excess supply and then we seem to be entering into a  
7 period where there's generation retirements and  
8 perhaps more demand on certain parts of our  
9 infrastructure, like the pipeline infrastructure,  
10 than we've had previously.

11                                  And it -- what I'm concerned about  
12 and something I know that, Garry, you've been focused  
13 on in the last several years, is the fact that  
14 we're -- as for the electric industry, of course, the  
15 obvious points become more and more dependent on a  
16 gas infrastructure and as we heard a little bit  
17 today, is the gas infrastructure's dependent on  
18 back-up oil, which may or not be there because the  
19 demand is intermittent, we need to really start  
20 thinking about the intersection of these industries  
21 and really thinking about it on a long-term period,  
22 is -- one is where's demand going in -- in the state,  
23 how that potential demand and requirement in pricing  
24 can be effected by what's going on elsewhere because  
25 we're not an island, and really kind of getting ahead

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2   of it, because if we're not ahead of it, we're  
3   constantly going to be behind the eight ball.

4                   And that means really looking at,  
5   on -- on I think a fairly deep level, the  
6   infrastructure needs of the state moving forward.  
7   And that's not just electric infrastructure.  
8   Obviously, it's an important part, but also gas  
9   infrastructure and I think it's also important that  
10  we consider the back-up oil infrastructure and -- and  
11  other fuel types, and how all these need to fit  
12  together to be in a position that these weather  
13  events don't drive these type of price events that  
14  either really hurt consumers, or -- or potentially  
15  drive other businesses out of business.

16                  And so, I think that one thing that  
17  I'm -- I'm taking away from this is -- is that it is  
18  going to be very important that -- from a -- a  
19  collective standpoint, that we do get our arms around  
20  what's going to be the requirements in this -- for  
21  the state, over the next ten to fifteen years. How  
22  do we maintain a fuel diversity, which I think  
23  everyone's identified is of value, and what we need  
24  to build out as infrastructure.

25                  So, one of my takeaways from this

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2    is -- is really for the -- probably for staff to  
3    start looking at this issue, thinking about how we  
4    move it forward so that we have -- we are looking  
5    into -- not the rearview window, which we all like to  
6    do, but quite frankly, it doesn't help us that much.  
7    It helps us a little, but we really need to look  
8    forward and see what the needs are and really start  
9    make -- thinking about what does that really mean in  
10   terms of investment and how do we actually incent  
11   that investment in the most efficient way. So, I  
12   think that -- that's sort of one big takeaway.

13                                    I think the other takeaway I have  
14   is, during this period, because we're not going to be  
15   able to solve these types of issues overnight and  
16   there's always going to be a potential element of --  
17   of infrastructure scarcity, is how do we protect  
18   consumers better, particularly the mass market, but I  
19   think we even heard from the commercial/industrial  
20   that, you know, this may be hurting them in different  
21   ways.

22                                    For example, just even the fact  
23   that they're not -- they're having to run their  
24   systems harder and longer because of interruptability  
25   or because -- things like that, is really thinking in

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2       terms of how do we manage that price volatility, what  
3       kind of price hedges -- we're, you know, looking  
4       again, as I said the utilities are doing it already  
5       and I'm pleased to hear about it, is looking at your  
6       hedging strategy, see if they're adequate for these  
7       new times.

8                                   But I think also, you know, we  
9       really look -- need to look at market products. And  
10      frankly, look at, again, fixed products, whether  
11      offered only by ESCOs, whether we go back and look at  
12      whether utilities should offer fixed products, what  
13      does that mean. And I know, you know, as part of our  
14      REV docket, we're going to -- we are going to be  
15      looking at all of these elements because we -- this  
16      is a big piece of how to animate the retail markets  
17      better, but also to drive efficiency and -- and drive  
18      out some of the natural volatility from the  
19      standpoint of what kind of consumer products can be  
20      offered.

21                                  But -- but I -- I would, you know,  
22      appreciate folks' thoughts on both of these issues.  
23      You know, how -- driving infrastructure investment,  
24      how do we use demand to drive that investment, and  
25      what are the best vehicles to get there, in your

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2 comments to us because it's -- it is -- this is a  
3 cyclical industry and we'll -- we'll -- I think we'll  
4 never stop it from being a cyclical industry, but in  
5 the end, I think it's really important that we think  
6 about, from the consumer perspective, how do we  
7 protect them from these boom and bust cycles so that  
8 they can -- electricity not only remains affordable,  
9 but the price remains reliable so people can budget  
10 around it.

11 So, that -- those are sort of my  
12 two big takeaways, other than the third one, which  
13 was it was a cold winter. But that was obvious.

14 Comments from any of my other --  
15 any other commissioners?

16 COMMISSIONER BROWN: No. I just  
17 want to -- one thing I didn't get a chance, with  
18 Grid, just the simple look at not socializing the  
19 hedging, if it really hits one zone over another, is  
20 it going to make for improvement, hopefully in  
21 2014-15. And I think that's got to be -- there's got  
22 to be two efforts here.

23 One, is the near-term effort. What  
24 can we do in the next six months to make things less  
25 likely to happen if we have a repeat of events next

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2 year?

3 And then the second is the  
4 longer-term, kind of what Aubrey just described,  
5 which is what are we going to do on a more permanent  
6 basis, as the dynamics of the system change. And  
7 electricity and gas are obviously becoming incredibly  
8 more interdependent. If coal plants close throughout  
9 the Midwest, it's got all sorts of ramifications, so  
10 there's just a lot of longer-term questions that we  
11 need to think about.

12 You know, as having been an oil and  
13 propane customer for the last twenty years, I'm  
14 entirely comfortable with the concept. Every winter,  
15 I have to decide whether to buy ahead or ride the  
16 price. That product's been out there forever and  
17 some winters you win and some winters you lose.  
18 For some reason, that hasn't caught on in some other  
19 fuels. I don't think it's really a matter that  
20 consumers couldn't understand it. It's just I don't  
21 think that product has generally been there for  
22 people to move forward.

23 So, that's -- and I know -- as a  
24 matter of fact, Doug Elfner sent me an email after  
25 some questions this morning. And I'll thank Chris

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2 Wentlent and the ESCO community. There seems to be a  
3 lot more fixed-price product emerging, maybe as a  
4 result of this winter. Maybe a lot of consumers said  
5 wow, I should have that option and the ESCOs are  
6 responding with that option.

7 So, I think we need to take a look  
8 at what we need to do this year and we need to take a  
9 longer-term look. So, those are my initial thoughts.

10 COMMISSIONER BURMAN: Madam --  
11 Chair Zibelman, it's very hard to put on a truly  
12 substantive technical conference such as this, so I  
13 thank you and all of the staff for what you've done  
14 to put this together so successfully.

15 I also applaud all of the panelists  
16 and those members of the public, who have taken the  
17 time to participate in this conference today. And I  
18 welcome their comments that can be formally submitted  
19 after this conference.

20 I did want to recognize, from FERC,  
21 Jeffery Dennis, who came here. I very much  
22 appreciated that and the coordination from FERC. I  
23 know that FERC had the technical conference back on  
24 April 1st and that there'll be comments coming in, I  
25 think, up until today, right, is the closing. So I

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2    looked forward to hearing what will come out of that.

3                                   I know that at the time of the  
4    April 1st technical conference, Chair Zibelman had  
5    testified there and talked about looking at things  
6    that could be done, both on a short-term and  
7    long-term process. And I know that, publicly, that  
8    Chair LeFleur had -- had echoed her support for that,  
9    so I look forward to that continued coordination.

10                                  But I'd also like to recognize, you  
11    know, what I affectionately term as Wes the Rock  
12    Star, in New York. And I'm sorry to publicly call  
13    you out on that, but, you know, you once again have  
14    proven -- you know, I tried to trip you up, by  
15    looking at your testimony back on April 1st and, you  
16    know, you did stick pretty much -- there was not one  
17    thing that you said both -- actually, in your  
18    testimony and in your PowerPoint, that I could say,  
19    you know, you've done something differently. You  
20    really have shown just your due diligence and really  
21    how much you work for the benefit of the people in  
22    New York. And I'm really just very glad that you  
23    have your eye on the ball.

24                                  And you know, the I.S.O. has a big  
25    role to play in the coordination and the planning, on

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2   a going forward basis. And I know that, you know, we  
3   really need to look at, regionally, the coordination  
4   and the lessons that have been learned. And you  
5   know, there was a lot of things that we can -- that  
6   we know. We know that the weather has been extreme.  
7   We look at the last thirty years and have to plan for  
8   that, but we also -- when we look at that, we have to  
9   try to figure out all of the different things that we  
10  can do.

11                                But some of the unknowns are what  
12  are the behavior patterns that are going to happen.  
13  And -- and we can't predict that. We can only make  
14  some assessments and try to work through that. But  
15  it's not just the weather. I mean, we've had cold  
16  weather, we've had hot weather. We've got a plan for  
17  the upcoming summer and the heat waves that may  
18  happen. And we've got to try to figure all of that  
19  out and adjust to that.

20                               For us, our number one priority is  
21  reliability, keeping the lights on. And it's  
22  important to have short-term goals that are also  
23  focused on the long-term goals, which is, you know, a  
24  lot of this dovetails into the REV proceedings. The  
25  track one and the track two, a lot of the hedging

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2 issues are focused on what we'll look at for the  
3 track two, with the fiscal issues that will come.  
4 So, all of these things, you know, we have to be  
5 partners in coordinating.

6 For me, it's looking at what we do  
7 know, in terms of potential retirements, aging  
8 infrastructure, you know, pipeline constraints, and  
9 all -- all of those things sort of merged together  
10 and being able to work together.

11 And so, I just thank you for what I  
12 think was a very informative technical conference  
13 that helps set the stage for what we all have been  
14 doing and continue to do. And this is very  
15 important.

16 So, thank you Chair and thank you  
17 Staff and Panelists. And, you know, the rock star  
18 Wes, in the corner, there. So, thanks.

19 CHAIR ZIBELMAN: Let me just add --  
20 just because now that I had a couple of minutes to  
21 think it.

22 I do think that this -- this issue  
23 about education is -- is one -- consumer education,  
24 we keep -- it seems to be coming back to it, is how  
25 do we get, you know, we talked about getting

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2 consumers engaged in REV, but how do we get consumers  
3 to -- to understand, because, unfortunately -- and I  
4 think we've heard from this, is -- is that with  
5 everything that goes on and everything we do, when  
6 prices go up, the -- the expectation of consumers is  
7 that somebody did something wrong.

8                   And that's, you know, maybe --  
9 and -- and I think we need to get people to  
10 understand that there are tools available, but on the  
11 other hand, we have to make sure those tools are  
12 available and they're effective and they're  
13 affordable.

14                   So, I think that's a big piece  
15 of -- of what we need to do going forward, is -- is  
16 think about that. And certainly a big part of the  
17 REV proceeding is how do we make that work better.

18                   So and then I do think that the  
19 work that ISO's doing is something we -- we  
20 definitely want to support and -- and make sure we  
21 understand how that can move -- help us help  
22 consumers.

23                   With that, one last point I wanted  
24 to make, because I didn't want to forget it, you  
25 might have noticed that Commissioner Sayre has not

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2    turned into Secretary Burgess, but he had another  
3    commitment today. He's at another hearing and --  
4    since we couldn't manufacture two Commissioner  
5    Sayres. He desperately wanted to be here because  
6    this is a topic he's very interested in, but I'm sure  
7    he'll be reading the record and be following this  
8    very closely.

9                                   So, thank you all and thanks staff  
10   for arranging this and we look forward to your  
11   comments.

12                                   (The hearing concluded at 3:29  
13   p.m.)

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