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May 13, 2011

By Electronic Mail
Hon. Jaclyn A. Brilling
Secretary
NYS Public Service Commission
Three Empire State Plaza
Albany, N. Y. 12223

Re: Case 10-E-0050 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service

SAPA ID# 10-E-0050SP3

Dear Secretary Brilling:

Enclosed for filing with the Commission are the "*Comments of the Retail Energy Supply Association*" in the above-captioned matter.

Thank you for your assistance in this matter.

Respectfully submitted,

Retail Energy Supply Association

By: Usher Fogel

Usher Fogel, Counsel

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 10-E-0050 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a Niagara Mohawk for Electric Service

COMMENTS OF THE RETAIL ENERGY SUPPLY ASSOCIATION

I. INTRODUCTION

These comments are submitted on behalf of the Retail Energy Supply Association ("RESA")[1] in response to the "Proposal Regarding Electric Supply Cost Recovery" submitted in this proceeding by Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid" or "Company") on March 10, 2011.[2] The Proposal seeks to modify the manner in which National Grid recovers its electric supply costs from its customers.[3] RESA appreciates the opportunity to submit these comments and provide assistance to the Commission in its consideration of the far reaching changes affecting the Company's commodity rate design structure.

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[1] RESA's members include: Champion Energy Services, LLC; ConEdison *Solutions*; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Energetix, Inc.; Energy Plus Holdings, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; MC Squared Energy Services, LLC; MXenergy; NextEra Energy Services; Noble Americas Energy Solutions LLC; PPL EnergyPlus, LLC; Reliant Energy Northeast LLC and TriEagle Energy, L.P.. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA

[2] Case 10-E-0050 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a Niagara Mohawk for Electric Service, Proposal Regarding Electric Supply Cost Recovery, and dated March 10, 2011.

[3] Proposal, p. 1.

II. PRELIMINARY STATEMENT

RESA is a trade association of energy services companies ("ESCO") engaged in the provision and sale of electricity and natural gas at retail to residential and commercial customers throughout all the service territories regulated by the Public Service Commission in the State of New York and in other jurisdictions. The members of RESA have been active in the provision of retail energy services in New York State for many years and in the National Grid service territory.

As described in greater detail below, RESA recommends that the Commission consider and reflect the following recommendations in its review of the National Grid commodity Proposal:

- NYPA Hydropower costs and any reconciliation or true-up related thereto should be recovered from the delivery portion of the customer's bill.
- New Hedges and the New Hedges Adjustment should only be recovered from mass market customers.
- The Company should provide timely and transparent information on its hedging activity.
- Capacity cost should reflect NYISO spot price, Demand Curve charges, and be tied to, the maximum degree possible, to the customer's actual usage patterns.
- The Company should disclose its Rate Ready billing option plans.

III. RESA COMMENTS ON THE PROPOSAL

A. Recovery of NYPA Hydropower Costs

In connection with recovery of NYPA hydropower costs, the Company indicates that it plans to revise the methodology for recovery of these charges as part of the Legacy Transition Charge ("LTC").[4] The Company's proposal in this regard requires further delineation and clarification.

Initially, the Company states that just as the LTC will be reflected in the "delivery section of customers' bills",[5] it will continue "to reflect the NYPA Hydropower benefits in the delivery section of residential customers' bills."[6] RESA supports the retention of the current recovery methodology which applies the legacy contracts and the benefits of NYPA Hydropower to the delivery portion of all customer bills.

The confusion arises with respect to the reconciliation of NYPA Hydropower costs. The monthly forecast of these charges will be "subject to a monthly true-up to reflect actual costs…" and the true-up will be "reflected on customer's bills on a two month lag.[7] The filing does not fully explain whether the reconciliation true-up of NYPA Hydropower costs will be applied to the delivery portion of the bill or possibly be incorporated in the Electric supply Reconciliation Mechanism ("ESRM") which is part of the commodity supply charge.

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[4] Proposal, p. 6, Attachment B, p. 11-15.
[5] Proposal, Attachment B, p. 12.
[6] Id, p. 14.
[7] Id.

As the initial cost of this legacy contract is reflected in the delivery portion of the residential customer's bill, it is both reasonable and equitable for the impact of any subsequent reconciliation or true-up to also be recovered through the delivery portion of the bill. Any other approach, such as flowing the reconciliation through the ESRM, would create a mismatch between customers who pay the base cost and those who are subject to the reconciliation. Moreover, this would be consistent with the established practice governing recovery of commodity cost true-ups.

B. New Hedges

The Company states the New Hedges[8] are "intended for the benefit of mass customers..." and that the New Hedge Adjustment will only "be assessed to mass market customers and not non-MHP or MHP customers."[9] RESA concurs with this approach. Nonetheless, in its discussion of the ESRM the Company does not limit the applicability of the application of the New Hedges Adjustment only to mass market customers.[10]

It is requested that the Commission clarify that all costs associated with the New Hedges will only be recovered from mass market customers.

With the advent of the new commodity cost recovery mechanism and the direct application of the cost of new hedges in the utility commodity cost, it becomes increasingly important for there to be provided greater detail and transparency in connection with the Company's new hedging activity for mass market customers. As time evolves, it is probable that the hedging activity will play a more influential role in the setting of the utility's commodity

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[8] New Hedges are defined as those executed after June 1, 2001 (Proposal, Attachment B, FN 6.)
[9] Proposal, Attachment B, p. 18.
[10] Proposal, p. 6.

costs for the affected customer classes. Therefore, in developing its commodity offerings, it is imperative that ESCOs be provided with relevant data applicable to the Company's hedging program.

Accordingly, RESA requests that National Grid on a quarterly basis be directed to provide the following data with respect to its on-going hedging activity:

- Start Date;
- End Date;
- Commodity (i.e. Electricity, capacity);
- Delivery Point;
- Transaction Type (i.e. Fixed, Indexed, Option);
- Price;
- Timing (i.e. 5x16, 7x24, 5X8 + 2x24, etc.);
- On Peak Volume by Hour, Month and Contract Term; and
- Off Peak Volume by Hour, Month and Contract Term

The provision of this information will benefit consumers as it will provide them with useful information concerning their energy usage and enhance the ability of ESCOs to develop and offer value added products.

C. Capacity Costs

The Proposal also envisions certain modifications to the calculation, collection and allocation of capacity costs for full service customers.[11]

National Grid initially proposes to change the definition of the Capacity Market Price which currently reflects the six-month strip auction, and instead reflect the NYISO Capacity Spot Market Price.[12] RESA supports this change as it more accurately reflects the actual capacity costs associated with customer usage on a current basis.

However, in addition to calculating the most current capacity cost, it is vitally important that the current capacity costs associated with each customer's usage pattern are accurately reflected in the manner by which the Company *bills* each customer for capacity. It is our understanding that under current practice, the Company does not necessarily bill customers in accordance with the capacity costs associated with the customer's individualized usage pattern. To reflect the transition to the spot capacity market price and its reflection in the customer's monthly usage, it is recommended that Formula #1 described below be used by the Company in billing capacity for customers it serves in all service classifications where account peak level demand values are measured.:

Formula #1:

ICAP tag x NGrid Loss Factor x NGrid annual adjustment factor (weather & load growth) x (1 + NYCA IRM (New York Control Area Installed Reserve Margin) x (1 - NYISO EFORd (equivalent forced derating)) x (1 + (Excess Spot MW / NYCA required MW)) x Spot Auction Price.

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[11] Proposal, p.7, Attachment B, p. 24

[12] Id., p. 25

This formulation accommodates the spot market price, any excess or Demand Curve spot prices and is tied to the customer's particular usage. It thus provides a billing modality that maintains the nexus between usage and cost causation.

In the event, the Company in the billing process is unable to apply an individualized capacity tag to the customer or if the capacity charge is relatively similar on a class basis (possibly for SC 1 residential customers), it may be appropriate in such limited circumstances to apply a class based capacity formula utilizing the spot auction capacity market as set forth below and denoted as Formula #2.

Formula #2:

$/kWh cost for capacity for rate class = [Spot Auction Price x NGrid Loss Factor$_{class}$ x NGrid annual adjustment factor (weather & load growth) x (1 + NYCA IRM (New York Control Area Installed Reserve Margin)) x(1 - NYISO EFORd (equivalent forced derating) x (1 + (Excess Spot MW / NYCA required MW)) x (Class average peak demand / Class average Hourly Load at NYCA Peak)] / Number of on peak hours of the applicable month

Formula #2 incorporates the spot market price and Demand Curve charges but reflects the class based capacity factor.

In connection with the capacity costs to be recovered from customers, the listing of charges set forth in the proposed Rule 46,[13] fails to include costs associated with the Demand Curve charges imposed by the NYISO on all Load Serving Entities. This omission should be

[13] Niagara Mohawk Tariff, PSC No. 220, Leaf 228

corrected. Such costs are duly associated with the procuring of capacity and thus need to be reflected in the calculation of capacity costs.

D. <u>Consolidated Billing</u>

National Grid issues consolidated bills on behalf of ESCOS that include the utility delivery charges and the ESCOs commodity charges using the Rate Ready Billing model. As part of its current Rate Ready billing structure National Grid enables the ESCO to bill in relation to the Company's NYISO Day Ahead Market ("DAM") price on a current basis. The Company provides billing rate "shells" that they populate with their ESS rate (electric supply service rate at the DAM for each class for each day for each LBMP zone). This enables the ESCO to create various shells that modify that ESS base price to add or subtract fixed amounts.

The Proposal does not address whether and to what extent the implementation of the new commodity cost recovery mechanism will affect the current Rate Ready billing model. It is respectfully requested that the Company disclose its plans for all of the options to be available under its Rate Ready model.

In the event the Company does seek to modify any element of its Rate Ready Billing model, it should first notify all ESCOs, convene a technical conference to discuss any possible change, and provide sufficient opportunity for ESCOs to submit comments to the Commission.

IV. CONCLUSION

RESA appreciates the opportunity to submit these comments and looks forward to working with the Commission and the Company in connection with the implementation of this new recovery mechanism.

Respectfully submitted,

Retail Energy Supply Association

By: Usher Fogel, Counsel
Usher Fogel, Counsel

Dated: May 13, 2011
Cedarhurst, N. Y.