



STATE OF NEW YORK
EXECUTIVE DEPARTMENT
STATE CONSUMER PROTECTION BOARD

George E. Pataki
Governor

Teresa A. Santaigo
Chairperson and Executive Director

August 4, 2005

Jaclyn Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223

Re: Petition of Niagara Mohawk Power Corporation for Approval to Implement Low-Income Gas Customer Energy Efficiency Program

Dear Secretary Brilling:

On June 6, 2005, Niagara Mohawk Power Corporation ("Niagara Mohawk" or "Company") requested Public Service Commission ("PSC" or "Commission") approval to use up to \$5 million of ratepayer-contributed resources to fund expanded energy efficiency services for approximately 1,655 low-income natural gas customers over a two-year period.¹ Pursuant to the State Administrative Procedure Act,² the Consumer Protection Board hereby comments on that proposal. Overall, the CPB strongly supports cost-effective gas efficiency programs³ as well as balanced programs to help low-income New Yorkers cope with the high price of energy. We also work to ensure that ratepayer funds are used in the most prudent and cost-effective manner possible. The CPB participated actively in meetings with the Company, NYSERDA, Staff of the Department of Public Service and other parties to assess whether Niagara Mohawk's Proposal would achieve these objectives.

Under Niagara Mohawk's Proposal, gas efficiency services would be provided using two existing NYSERDA programs. Approximately 580 low-income households would

¹ Petition of Niagara Mohawk Power Corporation for Approval to (sic) Low-Income Gas Customer Energy Efficiency Program, June 6, 2005 ("Niagara Mohawk Proposal").

² New York State Register, June 22, 2005, I.D. No. PSC-25-05-00012-P.

³ E.g., in Case 05-M-0090, In the Matter of the System Benefits Charge III, the CPB explained that the scope of the System Benefits Charge ("SBC") program should be expanded to include programs for natural gas customers, to the extent that benefits comparable to those achieved in the electric SBC program can be realized from programs aimed at natural gas use. Case 05-M-0090, Comments of the Consumer Protection Board, March 4, 2005, p. 15.

receive services under NYSERDA's Assisted Home Performance Program over a two-year period at a cost of approximately \$3,660 per household.⁴ Another 1,075 households would receive services under NYSERDA's EmPower New YorkSM program over two years at a cost of approximately \$2,000 per household.⁵ Benefits to the low-income households served under the program would include air sealing, attic and/or side-wall insulation, heating system measures, clothes dryer conversion from electric to gas, pipe insulation and gas water heater insulation, repair or replacement. The public, in general, would benefit from reduced emissions as the improvements result in less gas being burned and less electricity being generated. Overall, the Proposal is estimated to produce a savings-to-investment ratio ("SIR") of 1.1, meaning that the value of benefits received over the useful lives of the projects would exceed the cost of the investment by about 10%.⁶

The CPB recommends that the Commission consider our comments to help ensure that the \$5 million in ratepayer funding is used as prudently as possible. In Point I, we explain that the Commission should carefully consider two specific alternative uses of the \$5 million of ratepayer funds. In particular, should the Commission anticipate that Niagara Mohawk is likely to file a request to increase its gas delivery rates on or before December 31, 2005, the PSC should defer consideration of this Proposal to that proceeding. Such action will help ensure consideration of alternative potential uses of the \$5 million of ratepayer money, such as to help obviate or offset the need for a rate increase affecting all customers, which would benefit all low-income customers. We also recommend that the PSC consider modifying Niagara Mohawk's Proposal to provide benefits to far more low income customers than the estimated 830 customers that would benefit annually under this Proposal. We explain in Point II, that if the PSC determines that the Proposal is the most prudent use of ratepayer funds in this circumstance, it should amend the Proposal in two respects to help ensure that it is cost effective.

I. TWO SPECIFIC ALTERNATIVE USES OF THE \$5 MILLION OF RATEPAYER FUNDS SHOULD BE CONSIDERED.

The \$5 million funding for this program would come from the Contingency Reserve Account ("CRA") which consists of money intended to be used for customer benefit. The CPB urges the Commission to ensure that Niagara Mohawk's Proposal reflects the most cost-effective and prudent use of ratepayer funds. Consideration of other potentially superior uses of these funds is especially important given the expectation of continuing high natural gas commodity prices. In particular, natural gas commodity prices are forecast to be at or near record high prices throughout the upcoming heating season. Over the upcoming heating season, Niagara Mohawk estimates that its residential customers will

⁴ Niagara Mohawk Proposal, Exhibit, p. 5.

⁵ Id., Exhibit, p. 6.

⁶ This SIR is among the lowest of all programs implemented by NYSERDA.

pay almost 20% more per unit of gas than last year.⁷ As a result, many New Yorkers, including tens of thousands of Niagara Mohawk's low-income customers, may experience difficulty in paying their bills in the upcoming heating season.

Analysis to determine whether this Proposal is the most cost-effective and prudent use of scarce ratepayer funds is also of critical importance in consideration of the likelihood that Niagara Mohawk might request an increase in its natural gas delivery rates in the near future. On July 29, 2005, the Company requested bill increases for its electric operations in both 2006 and 2007 to reflect unanticipated increases in pension costs, health care costs, environmental clean up, and changes in regulations.⁸ Those cost factors are also applicable to the Company's natural gas operations. Since the Company's natural gas rate plan expired on December 31, 2004,⁹ Niagara Mohawk can file a natural gas delivery rate increase request at any time.

In view of these considerations, we recommend that the PSC consider two alternative uses of the \$5 million of ratepayer funds. First, the PSC should determine whether Niagara Mohawk is likely to file, on or before December 31, 2005, a request to increase its natural gas delivery rates. If such a filing is likely, we recommend that the PSC defer consideration of this Proposal to that proceeding.¹⁰ Such action will help ensure that the \$5 million of ratepayer funds is used in the most prudent manner possible, and that explicit consideration is given to using those funds to obviate or reduce the need for an overall increase in the Company's natural gas delivery rates.¹¹ Use of ratepayer funds to offset the need for a rate increase would benefit all of Niagara Mohawk's tens of thousands of low-income customers, instead of

⁷ Further, the price of natural gas paid by Niagara Mohawk's residential customers in the 2004- 2005 heating season was itself almost 20% higher than in the previous year. The Company estimates that natural gas prices in the 2005 – 2006 heating season will be more than twice the level of prices in the 2001 – 2002 heating season. These calculations reflect a seven-month heating season from October through April. Historic natural gas prices are from http://www.nationalgridus.com/niagaramohawk/business/rates/4_gas_supply.asp. Forecast natural gas prices are from http://www.nationalgridus.com/niagaramohawk/includes/non_html/mcgf.pdf.

⁸ Niagara Mohawk Power Corporation, Press Release, Niagara Mohawk Seeks First Electricity Delivery Price Increase in 11 years, July 29, 2005.

⁹ Case 01-M-0075, Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group plc and National Grid US for Approval of Merger and Stock Acquisition, Opinion No. 01-6, Opinion and Order Authorizing Merger and Adopting Rate Plan, December 3, 2001, p. 15.

¹⁰ It is noteworthy that under Niagara Mohawk's Proposal, of the estimated 830 low income customers who would obtain gas efficiency services each year, a small fraction of that number would be expected to have those services fully installed by December 31, 2005.

¹¹ Alternatively, the Commission could specify that should the Company file a request for an increase in natural gas delivery rates, further applications to participate in this program will not be accepted. In that case, remaining funds would remain in the CRA and would be available to offset any rate increase.

merely 830 customers that would benefit annually under the Proposal.

If Niagara Mohawk is not expected to request such a rate increase, we recommend that the Commission consider alternatives under which the \$5 million of ratepayer funds might be used to provide benefits to a larger number of Niagara Mohawk's low-income consumers than would benefit annually under the Proposal. For example, a smaller portfolio of gas energy efficiency benefits could be provided to a larger number of low-income consumers. Alternatively, the \$5 million could be used to provide additional credits on the bills of low-income customers.¹² Such alternatives would assist more low-income customers in paying their home heating bills particularly in this time of near record natural gas prices and provide a larger reduction in Niagara Mohawk's uncollectibles, thereby increasing future benefits to the general body of Niagara Mohawk customers.

II. THE PSC SHOULD ENSURE THAT NIAGARA MOHAWK'S PROPOSAL IS COST EFFECTIVE.

If the Commission determines that the Proposal represents the most prudent use of ratepayer funds in these circumstances, we recommend that it modify the Proposal in two respects to help ensure that it is cost effective. To ensure proper evaluation of NYSERDA's existing programs and that the incremental objectives of the Proposal are achieved, there must be separate targets for the services provided under NYSERDA's existing programs, and for those provided under the programs funded by the Proposal. The Proposal identifies those separate targets for the EmPower New YorkSM program, but not for the Assisted Home Performance with ENERGY STAR program. Accordingly, a baseline for the number of jobs that are completed under the Assisted Home Performance with ENERGY STAR program must be established and explicitly defined in the Proposal. The CPB has discussed this issue with NYSERDA, and understands that the baseline for Assisted Home Performance with ENERGY STAR for Niagara Mohawk gas customers is an average of 42 jobs, or projects, per month. The incremental target under the Proposal would be 24 completed jobs per month, with an average total of 66 Niagara Mohawk gas customer jobs per month. This baseline is reasonable, and should be reflected in final Proposal approved by the Commission or in the PSC's Order in this proceeding. The Commission should also modify the Reporting Requirements section of the Proposal to ensure that NYSERDA provides quarterly data on the number of Niagara Mohawk gas customers that obtain benefits under the Assisted Home Performance with ENERGY STAR and EmPower New YorkSM programs, both as they currently exist and under the incremental Proposal in this proceeding.

The PSC should also review the Proposal to ensure that it is cost effective. Although

¹² Although NYSERDA's programs are recognized as being run in a very efficient manner, the Proposal still would require that approximately 14% of ratepayer funds be expended for program overheads such as administration, marketing and implementation contractors. That money, over \$700,000, would be sufficient to extend a \$5 per month low-income rate discount to 11,700 families for a full year.

NYSERDA guarantees that all programs would achieve a SIR of at least 1.1, all efforts should be made to ensure the most effective use of ratepayer funds. Modifications of the Proposal to achieve this objective should be considered. For example, Niagara Mohawk could conduct some direct marketing of the Proposal instead of using ratepayer funds for that purpose, thereby increasing the cost effectiveness of the program. Such a modification would be equitable in view of the fact that the Company's uncollectible costs would be expected to decline if the Proposal were approved, thereby benefiting the Company.

Sincerely,


Teresa A. Santiago, Chairwoman and Executive Director
Douglas W. Elfner, Director of Utility Intervention
David Prestemon, Intervenor Attorney
Donna DeVito, Public Utility Analyst

cc: All Active Parties