



COST RECOVERY MECHANISMS FOR PUBLIC UTILITIES IN NEW YORK STATE

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Cost Recovery Mechanisms for Public Utilities in New York State

- Principal Flow Through Mechanisms for Cost Recovery outside a rate proceeding:
 - Purchased Gas Cost – Gas Adjustment Clause (GAC);
 - LDCs are allowed recovery of just and reasonable commodity and demand components of purchased gas costs which comprise between 60% and 75% of the customer's bill;
 - Includes recovery of lost and unaccounted for gas through a targeted incentive mechanism.
 - Electric Commodity Cost – Market Supply Charge;
 - Energy and Capacity Costs. Comprise about 50% of residential and 70% of industrial customer bills.

Cost Recovery Mechanisms for Public Utilities in New York State

- Purchased Gas Oversight
 - Comprehensive annual review of each LDC's gas purchasing strategies includes:
 - Meetings with each LDC to discuss gas purchasing strategies;
 - Gas supply portfolio and contract strategies;
 - Demand and Commodity prices;
 - Hedging plans to limit price volatility;
 - Reliability of Supply to meet peak winter requirements;
 - Compliance with Commission's gas capacity release requirements;
 - Interruptible customers' compliance with alternate fuel requirements;
 - Staff Report of findings to the Commission prior to start of winter heating season.

Cost Recovery Mechanisms for Public Utilities in New York State

- **GAC Monitoring and Auditing:**
 - LDCs file a monthly tariff statement that shows the components of its cost of gas;
 - LDCs file monthly workpapers and statements supporting the cost of gas for review and audit;
 - LDCs are required to make an annual gas cost reconciliation filing subject to Staff audit which includes a review of;
 - Gas commodity and capacity costs
 - Gas cost credits (e.g. off-system sale profits, pipeline refunds, interruptible sales credits) to determine if they were allocated in accordance with Commission orders and practices
 - Actual LAUF and reconcile with rate case allowance
 - Direct LDCs to make changes as required
 - Over/Under recovery of gas costs reflected in subsequent GAC statements.

Cost Recovery Mechanisms for Public Utilities in New York State

- Electric Commodity Cost Oversight:
 - Design electric commodity cost recovery mechanisms in rate cases or other Commission proceedings.
 - Active participation at NYISO, which monitors and governs the electric commodity market.
 - Annually review and assess utility electric supply procurement strategies.
 - Evaluate utility hedging strategies and their effect on commodity price volatility on a quarterly basis.
 - Annually evaluate and present summer electric commodity price outlook to Commission.

Cost Recovery Mechanisms for Public Utilities in New York State

- Electric Commodity Cost Monitoring and Audit:
 - Commodity costs are recovered on a monthly basis via statements, which allow costs to be subject to refund, filed with the Commission.
 - Staff reviews statements and all supporting workpapers. Seeks additional information as need.
 - Staff reviews all cost information (capacity, energy, ancillary services, etc.) and all calculations supporting requested recovery amounts.
 - Staff periodically conducts more thorough, detailed audits (down to monthly invoice).

Cost Recovery Mechanisms for Public Utilities in New York State

- True-up Mechanisms related to rate cases:
 - Revenue Decoupling Mechanism (RDM); True up of actual revenues to forecast established in rate proceeding.
 - Merchant Function Charges (MFC); Recovery of commodity related costs unbundled from delivery costs – needed due to advent of retail access programs.

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- Other Costs that are tracked and subject to true-up and/or deferral mechanisms:
 - Gross Receipt Taxes – GRT (outside of a rate case)
 - Energy Efficiency Program Costs – System Benefits Charge (SBC)
 - Renewable Portfolio Standard Costs
 - Site Investigation and Remediation environmental costs (SIR)
 - Capital Expenditures – Downside true-up
 - Property Taxes
 - Pensions/OPEBs
 - Storm costs

Cost Recovery Mechanisms for Public Utilities in New York State

- Performance/Incentive Based Recovery Mechanisms addressed in Rate cases:
 - Electric Reliability, Gas Safety Performance and Customer Service Incentive Mechanisms
 - Capital costs associated with leak prone gas pipe replacement programs
 - Earnings sharing mechanisms
 - Non-firm/gas interruptible revenue margin true-up with sharing mechanism