

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

**Proceeding on Motion of the Commission
as to the Rates, Charges, Rules, and
Regulations of New York State Electric
& Gas Corporation for Electric Service.**

Case 05-E-1222

**POST-HEARING REPLY BRIEF OF
PUBLIC UTILITY LAW PROJECT**

**Public Utility Law Project
Of New York, Inc.
Gerald A. Norlander, Esq.
Ben Wiles, Esq.
Charles J. Brennan, Esq.
90 State Street, Suite 601
Albany, NY 12207-1715
Tel. 518-449-3375**

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slightly better than, charges to fixed rate customers if one selects a limited time period for the comparison.

PULP pointed out in its initial brief that there is no substance to claims that the hedged NYSEG variable rate protected customers from significant rate and bill volatility. Variable rates of NYSEG, Con Edison, and O&R, all used "hedging" and all were presumably overseen by vigilant Staff for prudent purchasing and hedging practices, and have had abrupt spikes with major bill shocks for customers in recent years. With NUG contracts expiring, the possibility of even greater volatility in the coming years is possible for NYSEG's variable rate customers, even if the Staff-approved hedging practices are continued.

Second, proponents of the variable rate claim that Budget Billing is a remedy for spiking variable rates within the range of consumer options - and so customers would have no one to blame but themselves if they see bill shock due to fluctuating monthly rates. An examination of how Budget Billing works under NYSEG tariffs demonstrates why this claim cannot be based in reality.

Monthly Budget Billing amounts are based on the customer's prior year usage. Only if one assumes that (i) variable rate price spikes would neatly jibe with equivalent price dips exactly in a customer-specific 12-month period and (ii) that variable rates are not adjusted upward, would the Budget Billing scenario pan out.

Budget Billing amounts, however, are not the same for an entire year. Rather, the monthly Budget Billing payment amount is recalculated at least four times a year, and possibly

more often if rates are changing.⁹ Depending upon the timing and duration of a spike in variable rates, a recalculation of Budget Billing payments could actually exceed some monthly spikes because new payment levels must be set at a level sufficient not only for the customer to “catch up” with any past undercharges but also to adjust for higher current and projected rates.

In contrast, the fixed rate customer with Budget Billing will see prospective bill adjustments made based only on her deviations from prior annual usage patterns. Such Budget Billing adjustments will not incorporate unpredicted increases in the variable rate, and, to a degree, are actually within the customer’s control because they are based on the customer’s usage.

Third, Staff indicated that for a two-year portion of the current rate plan, variable rate customers have done somewhat better, in terms of total bills, than fixed rate customers. NYSEG says that they did about the same when looking at the full period of the plan to date. The parity or near parity of results between NYSEG’s fixed and variable rates raises questions about the cost and efficacy of the variable rate (with hedging) approach so favored by Staff as the only default service. Obviously the hedging is costly - it led to total costs similar to the fixed rates condemned for being inflated. Yet, despite the hedging, the variable rate customers experienced major monthly jumps in their bills, without the protection enjoyed by fixed rate customers, and without any earnings sharing. Finally, if “headroom” were to be reduced or eliminated, perhaps

⁹ NYSEG tariffs provide that “In order to minimize the amount of over or under-payment to be adjusted on the 12th month (twelfth) bill, *the Corporation will, at the end of the third, sixth and ninth month, review the customer's plan balance and, based upon known and/or projected rates, adjustments, and usage, re-estimate the remaining bills. The Corporation will also review the customer's plan balance if basic rate, adjustment, or usage changes occur at other times during the plan year. Any of these reviews can result in mandatory revisions to the stipulated monthly payment.*” NYSEG Billing and Collections Tariff, Part O, Budget Billing, PSC No. 119, Leaf 98. (*Emphasis added*).