CONFIDENTIAL POLICY ADVICE TO THE BUDGET DIRECTOR

2008-09 Spending Plan	Agency Name: Department of Public Service
	Agency Head: Chairman Garry Brown

A. Overview of Proposed Plan

A.1 Overall Approach

The primary mission of the New York State Department of Public Service (DPS) is to ensure safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business consumers, at just and reasonable rates. The Department seeks to stimulate innovation, strategic infrastructure investment, consumer awareness, competitive markets where feasible, and the use of resources in an efficient and environmentally sound manner.

The Department oversees an industry with an estimated $30 billion in revenue (excluding Energy Service Companies), with significant and increasing capital construction programs. Commission orders issued since 2003 have actively supported increased investments in utility infrastructure by setting rates reflecting more than $9.5 billion of capital expenditures being made in NY's electric, gas and steam infrastructure. Notably, the capital budget and associated projects for Con Edison's electric division alone has more than quadrupled from approximately $450 million in the late 1990's to nearly $2 billion currently. Staff effort associated with monitoring this work has likewise increased substantially.

The Department has also seen increases in rate case work caused by expiring long-term rate plans and several new Commission initiatives—including the Energy Efficiency Portfolio Standard, Renewable Portfolio Standard, Long-Term Planning, and Revenue Decoupling Mechanism Commission cases. These and other Executive priority initiatives—such as the Regional Greenhouse Gas Initiative and the Governor's recent Executive Order implementing an Energy Planning Board and process—have all commenced since 2006 and are anticipated to dramatically increase workload across the Department.

Over the last ten years, the Department's workload with respect to emergency planning and response, security, service reliability and public safety has also increased significantly. We have been active participants in addressing, among other issues: the 1998 ice storm in northern New York, Y2K, the World Trade Center tragedy, strengthening security and emergency response standards in the aftermath of September 11th, the 2003 Northeast blackout, a total collapse in 2003 of a major 345 kv tower line near Amsterdam during a windstorm, stray voltage problems detected in 2004 which caused a fatality in NYC, the summer 2006 Con Edison crisis in Queens, 2006 summer flooding in the southern tier, the 2007 NYC steam and NYC natural gas explosions, multiple telecommunications and energy utility mergers, and spiraling energy costs. Our efforts to strengthen competition in the utility industry have also resulted in a marked increase in Energy Services Companies (ESCOs) serving NYS, and we have been dealing with rapidly evolving telecommunications technology.

In the face of these challenges, the Department continuously evaluates its organization and operations to ensure it is achieving the agency mission in the most efficient and effective manner possible. As approved by Chairman Brown, the Department's 2008-2009 Spending Plan achieves the 3.35 percent reduction required of all State agencies in a manner that preserves our ability to continue to both make progress towards key policy initiatives outlined in our periodic Reports to the Division of State Operations and address our statutory core workload. We consider our full FTE positions (costing $63.5 million last year, including fringe benefits) to be a small but necessary investment in ensuring ratepayer costs in New York's $30 billion utility industry (excluding ESCOs) are just and reasonable. Staff involvement in individual rate cases and mergers has produced substantial and recurring customer benefits which are many multiples of our staffing costs.

We have also rigorously reviewed our nonpersonal service (NPS) budget to eliminate non-essential spending and identified non-core functions that could be eliminated (subject to legislation). Recurring spending reductions are proposed in both our utility assessment funding and in our cable assessment funding, achieved in small part by delaying some NPS spending this year that will be replaced in out years by other NPS reductions. As requested we have also shared and discussed our plan with the Executive Chamber regarding preservation and furtherance of progress on policy goals. The Department will, of course, continue to work with both the Executive Chamber and Division of the Budget as needed to meet our mutual goals of effective and efficient operations.

A.2 Achievement of Savings on a Recurring Basis

As previously mentioned, the Department continually evaluates whether it is organized and operating in the most efficient and effective manner to both accomplish its mission and adjust as strategic priorities change.

Over the years, we have implemented several major organizational changes, including office abolitions and mergers, to improve efficiency and strengthen our focus on core priorities. Key recent reorganizations and operational initiatives since early 2007 include:

- To strengthen our focus on energy efficiency as a Governor's policy initiative, the Department created the Office of Energy Efficiency and the Environment. To streamline senior management, it simultaneously merged our non-telecommunications regulatory responsibilities from two offices into one office, creating the new Office of Electric, Gas, and Water.

- The Department is pursuing opportunities to make our offices more energy efficient and environmentally "green". DPS has worked this past year with the Office of General Services (OGS) and NYSERDA to identify key "green" strategies. We are instituting a number of initiatives to save energy, including: daytime cleaning in Empire State Plaza Building 3 (ESP#3), banning of personal refrigerators and replacement with fewer Energy-Star refrigerators where needed, software to centrally manage computer power usage settings, two-sided printing as the norm, and, likely with our next rollout, conversion of desktops to laptops. Discussions continue with OGS on other ESP#3 initiatives--including automatic flush toilets and touchless faucets, occupancy motion light sensors in certain rooms, and lighting redesigns. (Please note any cost savings here would accrue to OGS since DPS utilities for ESP #3 are included in our annual lease payment).

- Following completion of an agency-wide business process reengineering study, the Department commenced in 2007 a significant information technology project to automate management of Commission records, including electronic filing, workflow, and document retention. This multi-year document management project will be undertaken in phases, with the first phase - Commission cases - expected to be completed this fiscal year.

- Our Internal Control activities have been separated from our Internal Audit function, with Internal Audit now reporting directly to Chairman Brown. This addition to agency checks and balances will further help reduce potential business risk, and potentially stimulate new cost efficiencies with increased audit reviews.

- The offices of Retail Market Development and Economic Development & Policy Coordination were abolished, with most of their 26 staff transferred to work on electric, environmental and consumer service issues. Similarly transferred was our baseline economic development and energy market oversight and compliance work. Notably eliminated as less essential, given accomplishments to date in this area, was retail market outreach, education, and advocacy.

State Operations' Fiscal Plan

Personal Service

The Department's 2008-2009 Spending Plan is consistent with our strategic direction and DOB's 3.35 percent budget reduction requirement, while also preserving our staffing ability to address increasing core workload and key policy directives. The Department's staffing resources are fully targeted, directly or indirectly, toward meeting our strategic and other core responsibilities. We allocate staff to accomplish regulatory priorities on an interdisciplinary team basis. Given the complexity and diversity of regulatory policy issues, we have found this to be the most effective and efficient way to operate—minimizing the potential for duplication of effort, conflicting directions, and/or knowledge gaps on issues being addressed in different utility sectors. The Executive Office also redirects staff as needed among our ten offices to address key workload demands. In addition, all new hires and promotions must be well justified and approved by our Executive Office using stringent criteria based on criticality of operations, including statutory responsibilities and health/safety needs. We also note, given our special revenue status, to the extent we hire staff from other state agencies, we may be helping the General Fund on both salaries and fringe benefits.

As of January 2007, the average age of our staff was nearly 50 years, compared with a statewide average of nearly 47 years. The Department has been faced with a significant loss of experienced staff due to retirement. Key initiatives we have undertaken to manage this growing loss of significant professional expertise include both hiring entry-level staff in anticipation of selected announced retirements to help strengthen knowledge transfer and implementing key regulatory training for newer staff. Our 2007 reorganization also created an opportunity for inter-industry cross-training by combining the Electric office with the Gas and Water offices. The proposed plan includes some $690,000 in personal service reductions to reflect actual core spending, lower entry-level salaries, and/or some limited increase in vacancy time between fills. Additional staffing justification and details can be found in A3, F1, and F2.

Nonpersonal Service

We similarly exercise due diligence for all nonpersonal services (NPS) spending. The Department has examined its NPS budget and we have proposed recurring reductions totaling $1.29 million across categories—including technology acquisitions, equipment/supplies, conferences, travel, and contractual services. As a first step in curbing NPS spending in the face of Budget Bulletin B-1178, Chairman Brown immediately instituted more restrictive policy guidance for travel and conferences. The Executive Office then worked with all Offices to reexamine planned or potential upcoming travel in light of the new spending constraints, cancelling or delaying that which—while directly tied to agency workload—could be seen as less essential and/or discretionary. We also advised all staff of the new statewide spending constraints, notably asking for their assistance in helping to reduce general NPS spending to the extent practical.

In addition to travel, we examined other NPS spending categories based on various criteria, including: budgeted vs. actual spending, impact of reduction, strategic savings interests (e.g., travel/conferences), savings opportunities due to improved efficiency, and ensuring core program needs are covered. On a limited basis, as needed, spending reductions planned for the current year will be replaced in out years by information technology contractual service reductions as our document management automation project progresses, ensuring the NPS reductions remain recurring in nature over the next four years and beyond (see also Section K). Examples of recent key efficiency initiatives (implemented or underway) that will help reduce NPS spending and improve operational efficiency include:

- Upgraded and expanded video-conferencing and webcasting capability across DPS regional offices to further reduce the need for travel;

- Requiring staff to use two-sided printing and make black/white copies other than on a compelling exception basis;

- Distributing pending Commission session items electronically instead of in hard copy for the vast majority of DPS staff who receive such items, and asking staff to print session items only as needed for their direct work;

- Automation of filing and payment of travel vouchers; and

- Automation of various regulatory enforcement or utility filing requirements.

As a baseline to control and ensure appropriate NPS spending, DPS has established proper internal controls and security over the authorized signature process consistent with Office of State Comptroller (OSC) requirements (Bulletin G-126). Our Chairman has designated select employees of the Office of Administration (OA) as authorized to execute contracts, amendments and purchase orders and to certify vouchers for payment. Such staff are fully knowledgeable of pertinent State Finance Law and governing OSC and DOB guidelines, and training is kept current.

The Department's internal processes for approval also reflect appropriate internal controls consistent with the sensitivity, routine, and/or cost of purchases and other spending. Specific OA review and approval processes are highlighted for the following key spending:

- Technology Acquisitions:

  Technology goals reflect an identified agency and/or State focus on security, business continuity, emergency response, electronic document management, e-commerce, and/or operational efficiencies. Spending derives from internal technology budgets reviewed in the fall and spring with the Director of Administration, consistent with Annual Technology Plans submitted to the Office for Technology and DOB. Most spending falls into one of three categories: 1) strategic initiative, 2) infrastructure maintenance, or 3) standard operating equipment. All technology purchases require the approval of the Director of Information Services or, in her absence, the Assistant Director. Particular focus is given to non-standard purchase requests, with such requests elevated to the Director of Administration as appropriate. High profile applications--such as Document Management, web-enabled Geographic Information Services, etc.--require executive or high-level program sponsorship. Contracts are handled consistent with department-wide procedures (see “Contractual Services” below), and all are pre-audited by the Finance and Budget (F&B) Section prior to purchase commitment.

- Office & Equipment Supplies:

  The Department has an internal on-line office supply catalog for the purchase of all routine office supplies. Each office has a designated Supply Liaison who is authorized to place orders via an internal on-line Supply Requisition form. All such purchases are routinely made via State contract, as provided by the Office of General Services. The Office Services Unit (OSU) receives and processes on-line Supply Requisition forms. Orders for non-routine items also require a written justification approved by an Office Director or Section Head. The requisition form and corresponding justification are forwarded to the Administrative Management Section for approval before being processed by OSU.

  Orders for furniture and equipment (excluding computer resources – see Technology discussion) require a written justification approved by a Director or Section Head and an internal requisition form. The requisition form and corresponding justification are forwarded to Administrative Management for approval before being processed by OSU. Purchases are made via State contract, with a heavy emphasis on preferred source vendors where possible, consistent with State procurement requirements.

- Contractual Services:

  All contracting procurement strictly adheres to the requirements established by State Finance Law. Contract requests (including those for technology) require a justification memorandum from the requestor to the Chief of our Administrative Management Section in the Office of Administration. Contracts $15,000--$50,000 require approval of the Director of Administration and those above $50,000 also require the Executive Deputy’s approval. This approval is required before the Department can go forward with the procurement and the contract development process. Following selection of a consultant or other vendor, another justification memo is required for internal Department approval before submitting to the Office of the State Comptroller.

- Publications:

  All requests for new and renewal publications require a justification memorandum and internal requisition form addressed to the Director of Finance and Budget. The form must be signed by a

Supervisor and countersigned by an authorized F&B purchasing/payments staff before the order can be placed. As legally permitted, publications are routinely shared with multiple staff so that as many as possible receive benefit from the purchased subscription. With respect to internal publications, the Department minimizes wherever practical the production of more-expensive color and glossy printing.

- Travel:

  The Department relies heavily on videoconferencing and teleconferencing for meetings cutting across five statewide offices and the various utility field offices, and management controls are in place for necessary travel. Most DPS travel expenditures reflect costs for field inspectors who each must travel as many as 30,000 miles annually to inspect construction, operation and maintenance of gas and oil pipelines as well as utility right-of-way locations and ensure that safety and reliability standards are met. Other Department travel is undertaken to perform utility audits, to investigate constituent concerns that can be raised in statewide hearings, utility security or other site issues, or in response to utility emergencies such as the 2007 NYC steam explosion. All such job-related travel is reviewed and approved by the employees' supervisors.

  All Out-of-State travel and conference/seminar attendance requires formal travel authorization, approved by the Office Director. Proposed attendance of four or more individuals at the same event requires Executive Deputy review and approval. The technical nature of our agency's responsibilities results in much regulatory training occurring outside of New York, allowing all states to take advantage of centralized training opportunities. In addition, the National Association of Regulatory Utility Commissioners (NARUC) rotates meetings among states. All travel vouchers for reimbursement are: reviewed and approved by the employee's supervisor, audited for adherence to State Finance rules and regulations and proper Federal/State per-diem rates by Finance and Budget staff; and reviewed and certified by the F&B auditor's supervisor.

In general, the Department relies on State procurement cards to facilitate its small dollar purchases (the vast majority of our payments). This OSC program is designed to be an efficient and cost effective way to expedite such purchases. To help minimize any possible (and inherent) risks associated with such purchases, the Department has issued procurement cards to only select key purchasers in OA, based on the volume of purchases made in their respective areas. To further minimize fiscal risk, the Department has also limited the spending authority of the select cardholders. In accordance with established procedures, each cardholder is responsible for monthly verification and reconciliation of all account activity and is required to keep an accurate log of purchases which includes specific information for each transaction. The log must be signed by the cardholder and countersigned by the cardholder's supervisor, then forwarded along with the receipts of the purchase made to the authorized Program Administrator in Finance and Budget for review on a monthly basis.

OSC has commended the Department on its use of both the procurement card and Citibank Visa Corporate Credit card program. Additionally OSC has permitted the Department its highest agency threshold for Quick Pay privileges based on our payment track record and satisfactory payment audit experience. The Department was cited in 2006 by OSC as "exceptional" in the Department's payment record for paying its bills on time and avoiding having to make late interest payments.

A.3 Protecting Key Priorities

This year's Budget did not include any new initiative funding. At the same time, the Department is undertaking within existing resources a host of significant, high-value initiatives to meet the Governor's and Commission's public policy priorities. Priorities outlined in the 2008-09 Budget include: developing energy efficiency programs to ensure the goal of reducing electricity consumption by 15 percent below the forecasted level in 2015; conducting a process to begin long-range electricity planning; continuing implementation of the Renewable Portfolio Standard, designed to increase to at least 25 percent by 2013 the proportion of electricity sold to consumers in NYS that is generated from renewable resources; and ensuring the reliability of the electric, gas, steam and telecommunications networks. To supplement the long-range planning effort, on April 9, 2008 the Governor issued Executive Order Two which establishes a State Energy Planning Board and authorizes the creation and implementation of a State Energy Plan.

The periodic Reports to the Director of State Operations include these four Executive priorities, along with associated internal benchmarks/metrics, for which the Department has lead responsibility as well as two other Governor priorities where DPS performs an active supporting role.

The four Executive priorities as detailed in the Department's March 2008 Report to the Director of State Operations, are:

A. Energy Efficiency: Develop energy efficiency programs to reduce electricity consumption by 15 percent below forecasted levels in 2015. Implement an aggressive energy efficiency strategy to achieve long-term energy conservation goals and milestones. Give due consideration to energy efficiency portfolio standard for electric and gas load-serving entities and review revenue decoupling mechanisms in rate cases.

- Benchmark (1/16): Commission approved a joint proposal for expansion of existing, cost-effective energy efficiency programs in Orange & Rockland's electric service territory. A generic study in the Energy Efficiency Portfolio Standard (EPS) to analyze the potential for achieving energy efficiency targets is being undertaken with a similar study for natural gas expected.

- Benchmark (1/24): Dates were set for Energy Efficiency Portfolio Standard (EPS) proceeding: straw proposal was issued Feb. 11; Staff and parties identified issues for technical conference related to the Straw proposal, which was prepared by the administrative law judge, and Staff requested clarification of the Straw proposal on Feb. 22; technical conference was held March 5. On March 19, the ALJs issued a ruling granting in part a staff motion for reconsideration and revising the schedule. Staff updated its fast track programs.

- Benchmark: Continue discussion with parties in proceedings involving Con Edison gas, National Fuel Gas, and KeySpan New York and Long Island to develop efficiency programs for future years with associated ratemaking treatments.

- Benchmark (2/15): Proceeding established regarding Central Hudson's energy efficiency efforts.

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2nd Quarter Benchmarks:

Collaborative meetings to develop electric energy efficiency programs for Orange & Rockland expected to be underway. The Commission may consider efficiency programs for Con Edison Gas and KeySpan New York and Long Island addressing two additional years. The Commission may consider revising Con Edison's Distribution Load Relief Program (DLRP Rider U) to encourage demand response providers to participate in both the utility program and the NYISO Special Case Resources (SCR) program thereby maximizing the amount of demand response in the critical New York City load area. [Note: This has been done.]

B. Long-Range Electric Resource Planning: The Commission commenced this proceeding to develop electricity infrastructure planning recommendations, including the establishment of a long-term electric resource planning and infrastructure planning process. The proceeding will examine short-term regulatory reliability backstop issues, along with long-term integrated electric resource plan and infrastructure planning. The Commission reaffirmed its policy to encourage use of voluntary contracts of various durations for electricity procurement.

- <u>Benchmark</u> (1/11): Conference held with interested parties. A schedule and process to gather the information is required for submission to the Commission. Meetings held with interested parties this quarter. Issues being addressed include cost recovery and allocation for reliability backstop projects.

2nd Quarter Benchmarks:

- Establish and complete method for allocation and recovery of costs for regulated reliability backstop investments. The results of that process will result in a NYISO tariff filing at FERC. Begin to discuss establishing process by which the Commission will identify which backstop solutions should be chosen should there be competing projects. The objective is to bring those issues to the Commission for consideration in August. Thereafter a longer term process will be developed for public policy objectives.

C. Renewable Energy: Continue implementation of the Renewable Portfolio Standard (RPS), designed to increase to at least 25 percent by 2013 the amount of electricity sold to consumers that is generated from renewable resources. Balance cost impacts, resource diversity, and environmental effects involving energy efficiency objectives. Look at future energy needs with consideration of environmental issues in conjunction with fuel diversity and energy efficiency goals.

- <u>Benchmark:</u> Bids for the third solicitation of RPS received and being reviewed. Completion of new RPS cost study and report findings to Commission expected; initiate RPS outreach to target customers to explain the RPS program and the surcharge; staff to collaborate with NYSERDA on new RFP to develop new generation attribute tracking system; NYSERDA expected to issue contracts for solicitation.

- Benchmark (1/16): Authorized construction and operation of a wind energy project capable of generating 112.5 MW of electricity in the Town of Sheldon, Wyoming County.

2nd Quarter Benchmarks:

- Develop plans for next RPS solicitation; complete implementation of attribute tracking system.

D. Ensuring Reliability: Continue to ensure reliability of the electric, gas, steam, and telecommunications networks through oversight and monitoring of infrastructure day-to-day operations and investments for both supply and delivery with consideration given to energy efficiency, environmental and other policy initiatives.

- Benchmark (1/16): The Commission approved a project that will upgrade existing NYSEG transmission lines (29.8 miles of new and rebuilt 115 kilovolt (kV) transmission lines, a new 345/115 kV station, and related equipment upgrades at three existing substations) serving the Ithaca area.

- Benchmark (1/22): Active parties met to discuss the $1.47 billion transmission and distribution capital investment plan and asset condition report filed by National Grid pursuant to the Commission's order in the KeySpan/National Grid merger. The filing describes capital programs and projects that the company will undertake over a 5-year period to maintain and enhance reliable service and meet expected new demands. The company also presented a second plan of potential additional investments and budget of $2.38 billion. The plans are under review.

- Benchmark (2/13): Staff presented its findings to the Commission of its investigation into storm-related outages during the period of July 9-10, 2007, and the Troy load-shedding event from July 10, 2007. Staff made a number of recommendations for improvement of National Grid's operations, with a particular emphasis of improving communication during load shedding events, and minimizing the need to shed load. National Grid has been asked to implement the Staff recommendations within 60 days.

2nd Quarter Benchmarks:

- Continue and further refine implementation of infrastructure planning proceeding. Complete prudence phase of the Con Edison Long Island City Outage Investigation. A ruling on scope and scheduling established company and Staff testimony filing dates and future hearing dates. Ensure that National Grid implemented Staff's recommendations regarding the Troy load-shedding event.

Other relevant Governor's priorities included in the periodic Reports to the Director of State Operations are:

E. Broadband: Continue to explore approaches to expand access to affordable broadband throughout New York by participation in the Broadband Council and to work to expand competitive video choices for residents. Benchmarks include: assisting the Office for Technology (OFT) as part of their RFP and community broadband pilot projects. Awards are scheduled to be made prior to the end of the fiscal year.

F. Global Warming: Continue to monitor the Regional Greenhouse Gas Initiative cap and trade program and collaborate with interested parties in building the carbon allowance auction platform. The Benchmark includes the first auction of Regional Greenhouse Gas Initiative allowances expected.

Lastly, the Department also includes in the periodic Reports to the Director of State Operations other internal strategic workload in support of Executive priorities. They are:

A. Stimulating Innovation, Strategic Investments and Consumer Awareness: Provide customers through Advanced Metering Infrastructure (AMI) technology, also known as Smart Metering, with the ability to control energy costs by responding to peak prices. Encourage and promote utility pursuit of responsible and cost-justified AMI and select rate programs. Ensure future investments to create new energy generation, transmission and distribution are done in a strategic and cost-efficient manner. Expand statewide outreach and education programs. Benchmarks include an AMI technical conference and the PSC is expected to consider approving minimum AMI functionality. Additionally, staff will review the NYSEG/RGE AMI proposal and AMI pilots to be submitted by Con Edison, Orange and Rockland, and Central Hudson against AMI specifications if approved.

B. Ensuring Just and Reasonable Rates: Allow energy utilities to continue to hedge, where possible on an on-going basis, commodity purchases. Ensure competitive markets provide safe and adequate service at just and reasonable rates. Assert rigorous oversight of utility costs of providing service. Begin to design and implement a plan to oversee development of Commission planning policies and initiatives. Recognize that long-term planning process may potentially consider public policy goals and implementation of resource options such as construction of new clean generation, enhancement of the transmission systems, and demand management. With respect to distribution systems, DPS will continue to oversee needed utility upgrades to provide reliable service and to strengthen ratemaking provisions for utilities to improve performance. Benchmarks include a complete review of Iberdrola's proposed acquisition of Energy East; the Orange & Rockland electric rate case to be decided by Commission; and evidentiary hearings on the Con Edison steam rate case. [Note: Con Edison recently filed a major electric rate case and National Grid recently filed a major gas rate case. These proceedings have statutory deadlines with significant ratepayer dollars at stake.]

C. Securing Safe and Reliable Service: Ensure reliability through implementation of reliability standards, oversight of utility infrastructure investments and consideration of alternatives to investment, on a consistent basis across the utility industries. Use market mechanisms to achieve public policy ends. Utilize regulatory approaches, if necessary, should the market not address energy needs. Ensure protection and security oversight of utilities. Develop policies to streamline rate regulation. Work toward ensuring viability of the privately held water systems. Benchmarks include: produce follow-up reports to the Commission on status of compliance with its Telephone Network Reliability proceeding of required geographic interoffice route diversity deployment by telecommunications carriers and make recommendations on actions to enhance telecommunications network reliability; implement the Commission's request for the development of network reliability metrics applicable to all telecommunications providers that are consistent with public interest goals and relevant to the business needs of providers; perform comprehensive physical security audits of critical facilities -- energy utility facilities (33), large company telecommunications facilities (16), small company telecommunications facilities (3), and water company critical facilities (10) for a total of 62 audits.

The Department is facing significant and competing workload challenges, and will continue its best efforts to address these critical priorities and other essential core workload in the face of an already reduced and aging workforce. With these ongoing workload increases the Department must responsibly continue to reprioritize staffing as needed and refill all new vacancies consistent with our assessment of agency priorities and the financial management plan.

A.4 Treatment of New Initiatives

Section A3 references multiple key priorities that the Department currently reports on in its periodic Reports to the Director of State Operations, including several program efforts that began as new initiatives in the past two years. Notably, they include initiatives of priority interest to the Governor in the areas of energy efficiency, long-range electricity resource planning, renewable energy, and ensuring reliability. We have attempted to minimize staffing impacts through reorganizations, improved operating efficiencies, and project-specific reliance on retirees and/or consultants as needed.

In addition, a number of additional new initiatives, all important strategies to ensure safe and reliable energy service, are on the horizon or have just recently been put into place for implementation. We would request that those requiring legislation include needed appropriation authority to ensure sufficient staff to handle the new workload. We may otherwise be looking at the need to reassess with the Governor's Office and DOB statutory versus discretionary priorities and make some difficult decisions on how we proceed. Very recent and/or new initiatives on the horizon include:

- Energy Planning Board (which could be replaced by legislation): The Chairman and the Department have been specifically designated in the Executive Order to provide certain energy industry deliverables for the State Energy Plan. This will require that we perform this work with existing resources.

- Article X: Article X of the Public Service Law was established to expeditiously process requests to site new and expanded generating facilities. As you are aware, the Article X Law expired on December 31, 2002. The prior legislation required project applicants to deposit funds for intervenor costs. The Department's Intervenor Account spending is currently very limited pending closeout of such projects. On audit and closeout, these funds are returned to the applicant. In the years since Article X expired, staff have had to be reassigned to other core statutory work as well as new energy priorities such as RPS and energy efficiency planning.

- Article VII: The Department is statutorily required to determine the need and appropriate location of transmission lines (electric and gas). With the increase in interconnection of wind generators, increasing demand for natural gas, the upgrade and replacement of existing electric and gas lines, workload is expected to significantly increase in the next year. Some of this will result from a Commission-directed review of National Grid's transmission system while other work will be required to support the Renewable Portfolio Standard goals.

Energy Service Company (ESCO) Oversight and Assessments: Two recent cases initiated by the State's Consumer Protection Board and New York City's Department of Consumer Affairs have prompted the PSC to closely examine the marketing practices of ESCOs. Key concerns being investigated include: marketing standards for door to door; telephonic marketing; changes in service providers; presentations to customers on potential cost savings; and standard sales agreements including price, termination and early termination fees. We currently estimate gas and electric ESCO revenues to approximate $10 billion.

- LIPA: For the last several years there have been increasing calls for the Commission to exert some form of regulatory oversight over the Long Island Power Authority. If such legislation is enacted, the Department will be charged with additional responsibility.

B. Summary of General Fund Financial Impacts (Chart deleted—N/A)

C. Identification of Proposed General Fund Actions (Chart deleted—N/A)

D. Summary of Impact on Other Funds

OTHER FUNDS -- SAVINGS SUMMARY	Required Reduction	DPS Recommended 2008-09 Savings	DPS Recommended 2009-10 Savings
Local Assistance	- 0 -	- 0 -	- 0 -
Personal Service	N/A	$690,000	$690,000
Non-personal Service[1]	N/A	1,290,000	1,290,000
Total State Operations	$1,980,000	$1,980,000	$1,980,000
Capital	- 0 -	- 0 -	- 0 -
TOTAL			

[1]Includes $46,000 Indirect Cost savings.

OTHER FUNDS -- YEAR-TO-YEAR CHANGE, AFTER SAVINGS*	2007-08 Actual**	Revised Projection**	Percent Change
Local Assistance	0		
Personal Service	$38,112,000	$42,714,000	12.07%
Non-personal Service	10,307,000	13,010,000	26.22%
Indirect Costs	1,397,000	1,398,000	0.07%
Total State Operations	$49,816,000	$57,122,000	14.67%
Capital			
TOTAL			

* As directed, does not yet include the 3 percent PEF Retroactive COLA for 2007-08 or the current year 3 percent PEF COLA and associated fringe benefits and indirect costs.

** Does not include fringe benefits for any personal service.

The Department will report monthly as required.

E. Identification of Proposed Other Fund Actions

OTHER FUNDS
State Operations

	2008-09			2009-10	2010-11
Item	**18-a**	**Cable TV**	**Total**	**18-a & CTV**	**18-a & CTV**
1. Supplies and Materials	$197,000	$7,000	$204,000	$204,000	$204,000
2. Travel	97,000	15,000	112,000	112,000	112,000
3. Equipment Maint and Other Repairs	104,000	1,000	105,000	105,000	105,000
4. RGGI Sublease[1/]	66,000	0	66,000	66,000	66,000
5. Postage/Shipping, Telephone	120,000	0	120,000	120,000	120,000
6. Training	115,000	0	115,000	115,000	115,000
7. Other Contractual Services	438,000	21,000	459,000	459,000	459,000
8. Equipment	53,000	10,000	63,000	63,000	63,000
9. Indirect Costs	46,000	0	46,000	46,000	46,000
	-	-	-	-	-
Total NPS Savings[2/]	**$1,236,000**	**$54,000**	**$1,290,000**	**$1,290,000**	**$1,290,000**
PS Savings	**$238,000**	**$452,000**	**$690,000**	**$690,000**	**$690,000**
Grand Total - Savings	**$1,474,000**	**$506,000**	**$1,980,000**	**$1,980,000**	**$1,980,000**

1/ Requires continued appropriation authority in out-years.

2/ The criteria applied to identify potential savings include: budgeted versus anticipated actual costs; improved efficiency opportunities; minimizing negative impact on Governor’s priorities and core DPS programs; and strategically requiring agency savings in such areas as travel and conferences.

F. Plan to Manage the Workforce

F.1 Overall Approach

As you are aware, the Department of Public Service has been facing a significant workload increase due to its statutory/regulatory responsibilities and major energy policy and planning initiatives. Currently, Department Staff is addressing four major rate case filings including Con Edison’s request to increase its electric delivery rates by $654 million or more than 15 percent; Con Edison’s request to increase its steam rates by $127 million or 44 percent; the Orange & Rockland request to increase its electric delivery rates by $48 million or 25 percent; and National Grid’s request to increase natural gas delivery rates by $95 million or 30 percent. In addition, we are currently engaged in a major merger proceeding wherein the Spanish company Iberdrola is proposing to acquire Energy East, the parent company of New York State Electric & Gas and Rochester Gas & Electric. Filings are also possible during the fiscal year for up to a half dozen more energy rate cases and four large water rate cases. All of these cases will have significant impacts on ratepayers in the state, and, with the exception of the merger filing, must be fully adjudicated within the eleven month statutory time frame.

Depending on the company or size of requested rate increase, our rate cases can be staffed by a team of 10-30 people. Team members cover different issue areas in the accounting, finance, economics, engineering, energy efficiency, consumer service, industry relations, and legal disciplines. Within these fields, there are often multiple specialized areas of expertise that only reside in 1-2 people in the Department.

In addition, staffing is required to consider various municipal electric companies, numerous small water company filings (25 per year) and a couple of small telephone rate cases. These cases are being driven by major infrastructure investments and significant cost increases in property taxes, pensions, salaries and benefits, etc. We expect that our case load here will remain at this high level for a number of years given the high level of costs driving the need for rate increases and since multi-year settlements are less feasible when the rate impacts are so large.

Staffing is also required to address various transmission siting cases, a petition by Entergy to spin off its nuclear operations, and an audit of Con Edison's capital spending during its prior rate filing.

We also have several key Governor's agenda initiatives underway with respect to Energy Planning, Energy Efficiency and Environment Protection, as well as Energy Resource Adequacy. Our increased regulatory workload also includes expanded gas safety requirements. This core workload in aggregate is at the heart of our statutory public interest responsibilities designed to meet the goals of safe and adequate service at just and reasonable rates.

To help achieve previously required budget reductions, we have also participated in four early retirement programs since 1995-96, with 121 of our senior, long-term staff taking advantage of such programs. In addition, as of May 2008, a full 35 percent of our existing staff are 55 years or older and almost 60 percent of these staff are eligible to retire immediately without penalty. The ongoing retirement of seasoned staff makes it critical to timely recruit/fill critical technical and other core positions to minimize gaps in key knowledge and skill sets.

As previously mentioned, our agency is working with the Governor's Office and other state agencies on six key initiatives identified as Executive priorities in the budget and periodic Reports to the Director of State Operations. This is in addition to the Department's ongoing baseline regulatory work which continues to increase. We have undertaken significant staff redeployments based on assessments of less essential work and some reorganizations to ensure we carry out our responsibilities as efficiently and effectively as possible. Given all of the above, our overall approach then is to concentrate on maximizing recurring NPS savings while taking some smaller personal service reductions. We anticipate some personal service savings as a result of the net financial impact of losing retirees at the expectedly higher end of the State salary scales and hiring new employees at the beginning salary level(s). Additionally some savings will accrue to the Department by purposely keeping vacant positions unfilled for longer periods. We also have some natural savings in our Cable Television appropriation where actual spending is less than projected, retaining the same level of FTE fills.

F. 2 Plan for Refill of Vacant Positions (both current and anticipated vacancies)

As a rule, hiring currently is and will continue to be limited to positions that are critical to the Department's mission or needed to maintain health and safety requirements. We will also continuously assess and redirect current positions to the highest priorities, as needed. We must continue to fill critical positions as vacancies occur throughout the year to meet our regulatory requirements and energy planning priorities. We will achieve the full 3.35 percent savings, including some personal service savings, on a recurring basis. Section A2 details operationally how the Department approves staff hires and promotions.

G. Monthly Projections: All Funds Workforce; General Fund State Operations/Local/Capital (sample chart deleted)

The Department will report monthly as required and has provided current monthly spending projections for both of our special revenue accounts – Public Service and Cable Television – as well as Federal monthly spending projections.

H. Assumptions Underlying the Proposed Plan

Key issues outside our control that could affect our ability to meet this plan include:

- We have previously discussed in Section A4 a number of potential new initiatives on the horizon that could severely strain our staffing ability to meet core and priority new workload. With the possible exception of ESCO assessments, virtually all of these initiatives are outside the Department's control and may/will be subject to legislation.

- In addition, consistent with DOB direction, our Spending Plan does not address pending appropriation increases and/or payment of PEF COLAs for either 2007-2008 or the current year (three percent in each year).

I. Management of Risks Inherent in the Plan

As previously mentioned, the Department has undertaken a host of new priority initiatives in the last several months. If needed to be able to responsibly cover our priority workload, the Department will revisit priorities with the Governor's Office and Division of the Budget, with a focus on discretionary policy workload versus statutorily-required core workload. The challenge is that our core mission and work is directed to ensuring safe and adequate utility service at just and reasonable rates for an estimated $30 billion utility industry. (This excludes estimated ESCO revenue for electric and gas). While the discretionary policy work also is intended to benefit ratepayers, staff resources dedicated to rate case and other rate-related workload ultimately and inevitably advantages the State's utility consumers as well as the State's competitiveness and economic development.

J. Additional Savings Opportunities for 2008-09

It is very difficult to identify potential additional savings opportunities in the current year given that most of our core work is statutorily-driven. We will continue to assess our core functions as to their overall priority and to determine if lower priority work can be scaled-back or suspended absent changing legislation. Importantly, however, if the Department determines that a lower priority function can be curtailed administratively, we would seek to shift those assigned staff to the several higher priority initiatives and core work demands we face.

K. Potential Future Savings Opportunities/Operational Improvements (indicate if statutory change is required)

This Spending Plan provides for recurring savings over a four year period (based on current costs), and identifies a number of operational improvements that will have lasting efficiency benefit.

The Department has also identified certain regulatory functions that, with legislative change, could be strategic, substantive 2009-10 efficiency initiatives. With agreement to advance these initiatives, we would seek to redirect assigned staff to more effectively and/or timely achieve Executive priorities and other core responsibilities.