Luthin Associates, Inc.
ENERGY MANAGEMENT CONSULTING

November 17, 2006

Ms. Jaclyn A. Brilling
Secretary
Public Service Commission
3 Empire Plaza
Albany, New York 12223

CASE 06-M-1017 - Proceeding on Motion of the Commission as to Policies, Practices and Procedures For Utility Commodity Supply Service to Residential and Small Commercial and Industrial Customers.

Dear Ms. Brilling,

On behalf of Luthin Associates and Consumer Power Advocates (CPA), I offer these comments on the development of supply portfolio standards in the above captioned case. CPA is an association of large, non-profit institutions whose primary goal is to decrease the cost of energy by focusing on regulatory decisions and programs which impact energy consumers in New York City.

1. **The extent to which guidelines for electric utilities should constrain their discretion in structuring their supply portfolios.**

CPA believes utilities should be allowed broad discretion to develop strategies for supply portfolios, provided that the cost of those hedging strategies is fully recovered within the period of the hedge. Allowing out-of-period or "stranded" recovery of hedging costs will inevitably lead to market distortions.

2. **The balance between the level of price mitigation needed to protect customers and the level of exposure to volatility.**

The exposure of demand metered customers to the volatility of hourly prices has not improved their choices in the market, we do not believe exposure to price volatility will have better results for small customers, who do not have demand meters. Moreover, retail access has always been promoted on the basis of increasing customers' choices, but that implies that those choices would be *better* choices, not the false choice of exposure to unnecessary risk. Consistent with our position on the first issue above, we support broad discretion for utilities to hedge their supply portfolio. We do not expect this to result in a fully hedged portfolio for any utility because the elimination of all price volatility is an unreasonable goal. Further, it is essential that any hedging program provide for the possibility that customer migration to retail access may severely reduce the volumes to which it applies. To the extent that happens, the utility should not be allowed to recover any hedging costs "stranded" by that migration.

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3. **No comments.**

4. **Whether hedging costs should be recovered from full service customers or from all delivery customers.**

Hedging costs are incurred for the benefit of full service customers, and should be recovered from those customers only. This simple principle of cost causality seems too obvious to be necessary to state.

5. **The cost elements that should comprise electric commodity service.**

Commodity service should include all costs allocable to supply, in addition to the cost of purchased power (including energy, capacity, transmission charges, ancillary services and other NYISO charges, including all true-ups and rebillings), it should include reasonable administration and general costs incurred by the utility. Any subtraction from that list would only provide a false signal in the market.

6. **The length of the time period over which utilities should execute longer-term supply strategies.**

We support the use of longer term supply strategies for all suppliers, including utilities. We are concerned that the current marketplace has not resulted in the development of a long term supply strategy by deregulated market participants. The financial community has long required long term commitments as a condition of investment in new generation facilities. If the marketplace does not provide adequate investment incentive to insure reliability, that is an issue the Commission must address.

7. **The appropriate level of supply portfolio information that should be revealed to the public.**

We are sensitive to the concern that public disclosure of contract terms will undermine a utility's bargaining position in negotiating supply contracts. Nevertheless, some disclosure of portfolio practices is warranted. All supply contracts should be filed with the Commission, under trade secret protection, subject to specific challenge by interested parties. In addition, utilities should provide, in summary form, the general parameters of their hedging strategy, including the fraction of load hedged, and the types of instruments used to provide those hedges.

We thank you for this opportunity to comment on these important issues.

Respectfully submitted,

ss/Catherine M. Luthin

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