STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Tariff filing by Niagara Mohawk Power Corporation d/b/a National Grid to establish a new provision to cap the overall transportation rate charged under Service Classification No. 14 – Gas Transportation Service for Dual Fuel Electric Generators contained in P.S.C. No. 219 – Gas	)	**Case 15-G-0246**

INTERVENTION AND COMMENTS OF SYRACUSE, LLC

Syracuse, LLC ("Syracuse") submits its Intervention and Comments in this proceeding pursuant to Rule 3.5 of the Commission's Procedural Rules, 16 N.Y.C.R.R. § 3.5 (2014), and the Notice of Proposed Rulemaking published by the Commission in the May 13, 2015 edition of the New York State Register.

INTRODUCTION AND BACKGROUND

Syracuse owns and operates a 103 MW natural gas fueled generating facility located in Syracuse, New York (the "Facility"). The Facility was originally constructed by Kamine-Bessiecorp as a Qualifying Co-generation Facility under PSL § 2(2-a) and entered service on September 1, 1993. Syracuse acquired the Facility from Lakeside Energy LLC and its wholly-owned subsidiary Lakeside Syracuse LLC (collectively, "Lakeside") in January of 2015, after the

Commission issued an order disclaiming jurisdiction to review that transfer under the Wallkill presumption.[1]

The Facility has received gas transportation and balancing services from Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid") since January 26, 1999, under the terms of a Gas Transportation Agreement under Rate Schedule S.C. No. 9 (the "SC-9 Agreement"). By letter dated February 28, 2014, National Grid informed Lakeside of its intention to terminate the SC-9 Agreement effective March 1, 2015, which termination date was later extended by National Grid to August 1, 2015.

National Grid also advised Lakeside in that letter that Rate Schedule S.C. No. 14 ("SC-14"), Gas Transportation Service for Dual Fuel Electric Generators, of National Grid's Tariff P.S.C. No. 219 Gas (the "Tariff") was now "the appropriate rate for Lakeside going forward." As the Commission is aware, charges for gas transportation services under Rate Schedule SC-14 include a contribution to overall system cost of $0.010 per therm of gas delivered, a marginal system cost of $0.017 per therm delivered, and a Value Added Charge (the "VAC") determined through a complex comparison of historic and current differences between the cost of fuel and the cost of electricity (the "spark spread") for a generating facility with a heat rate and gas costs similar to those of the generating facility in question.

In discussions between Syracuse and National Grid about the impact of the VAC on the Facility's total cost of gas transportation service, it soon became evident that the VAC for the Facility for 2015 would be an astonishing $0.050 cents per therm, resulting in a total charge for delivery service to the Facility of no less than $0.070 per therm. This rate is many times higher

---

[1] Case 14-M-0516, *Lakeside Energy LLC, Lakeside Generation LLC, Lakeside New York LLC, Lakeside Beaver Falls LLC, Lakeside Syracuse LLC, and NEP Holdco 1 LLC – Joint Petition for Expedited Approval Pursuant to Public Service Law §§70 and 81 and Related Approvals*, Declaratory Ruling On Review Of A Transfer Transaction (Issued and Effective January 13, 2015).

than the delivery rates that Syracuse is presently paying under the SC-9 Agreement and also exceeds National Grid's rates for both firm and interruptible transportation service to large customers under Rate Schedules S.C. No. 6 ("SC-6") and S.C. No. 8 ("SC-8") of the Tariff, respectively.

In these discussions, National Grid also informed Syracuse that Special Provision 9 of Rate Schedule SC-14 provides that:

> 9. Imbalances:
>
> The Company will not provide balancing service to the customer. The customer will be responsible for purchasing balancing services in the competitive marketplace that are satisfactory to the Company.[2]

Since being informed of this requirement, Syracuse has attempted unsuccessfully to locate a commercial service provider willing to provide the balancing services that Syracuse receives from National Grid under the SC-9 Agreement on commercially reasonable terms.

SUMMARY OF POSITION

In its March 17, 1999 Order in Case 98-G-0122 (the "March 17, 1999 Order"), the Commission made clear that rates for the transportation of natural gas for electric generation should be designed to promote the use of natural gas as a fuel for electric generation and should therefore be significantly lower than the rates for other large volume delivery services. Specifically, the Commission ruled that:

> In designing the rates, each LDC should implement the following principles:
>
> 1. The rates should not be an impediment to the development of generation in the utilities' service territory.

[2] Tariff, First Revised Leaf No. 225 (Effective March 15, 2006).

2. The rates should be set at a level that would minimize incentives to negotiate, bypass, or locate elsewhere.

3. It is expected that the total rate will be significantly lower than the rates for other large volume services, considering the economies of scale.[3]

In this proceeding, National Grid is proposing to cap the total charge for transportation service to gas-fired generators served under Rate Schedule SC-14 at the rates that would apply to those customers if they received Large Volume Interruptible Transportation Service under Rate Schedule S.C. No. 6 ("SC-6") of the Tariff.

While Syracuse supports National Grid's proposed tariff change as an important first step in achieving the objectives of the March 17, 1999 Order, this change alone is not sufficient to ensure that the rates that Syracuse must pay for National Grid's delivery services "will be significantly lower than the rates for other large volume services" and will not be "an impediment" to the operation of the Facility as the Commission mandated in the March 17, 1999 Order. To achieve these objectives, Syracuse respectfully submits that several additional changes must be made to Rate Schedule SC-14:

First, the maximum rate applicable to interruptible gas transportation services for electric generators served under Rate Schedule SC-14 should not be allowed to exceed 50% of the rate for firm gas transportation service under Rate Schedule SC-8. Alternatively, the Commission should revise the method by which the VAC is calculated to avoid the unfair and excessive charges that result when that formula is applied to the unique demands of the Facility. Second, Special Provision 9 of Rate Schedule SC-14 should be modified to require National Grid to provide balancing service to customers that can demonstrate that they are unable to obtain such

---

[3] Case 98-G-0122 - *Proceeding on Motion of the Commission to Review the Bypass Policy Relating to the Pricing of Gas Transportation for Electric Generation,* Order Approving Staff Recommendation, slip op. at 5 (Issued & Effective March 17, 1999).

services from any other source, and National Grid should be required to continue serving Syracuse under its existing SC-9 Agreement until new tariff provisions resolving all of the issues in this proceeding have been filed by National Grid and accepted by the Commission.

ANALYSIS

I. THE COMMISSION SHOULD APPROVE NATIONAL GRID'S PROPOSED CAP ON TOTAL CHARGES FOR GAS TRANSPORTATION SERVICE UNDER RATE SCHEDULE SC-14

While the tariff changes proposed by National Grid in this proceeding are not sufficient to fully achieve the Commission directive in the March 17, 1999 Order that rates for the transportation of natural gas for generating facilities like Syracuse should be "significantly lower" than the rates for other large volume services, those tariff changes do at least ensure that the rates that Syracuse will pay for gas transportation will not be higher than the rates that National Grid charges to other customers for similar services. Implementation of this cap is also required to comply with the Commission's further direction in the March 17, 1999 Order that rates for delivery services for generating facilities "should be no greater than the otherwise applicable interruptible transportation tariff."[4]

[4] March 19, 1999 Order, slip op. at 5.

II. THE COMMISSION SHOULD FURTHER REDUCE THE CAP ON NATIONAL GRID'S TOTAL CHARGE FOR GAS TRANSPORTATION SERVICE UNDER RATE SCHEDULE SC-14 TO NO MORE THAN FIFTY PERCENT OF THE FIRM TRANSPORTATION RATE

While the Commission's decision to cap rates for gas transportation services to generating facilities at 100% of the otherwise applicable interruptible rate was reasonable when adopted in 1999, markets have changes substantially since that time. In 1999, the price difference between oil and gas on a BTU basis was relatively modest, and competition from oil therefore limited the amounts that LDCs could charge for the transportation of natural gas to levels well below the firm rate. That has changed substantially as a result of the development of hydraulic fracturing of shale gas reserves, which created a large gap between gas and oil prices and has allowed National Grid and other LDCs to consistently charge interruptible transportation rates that are approximately equal to the firm rate.

This result is unfair for all interruptible customers, who receive a lower quality of service and impose no system upgrade costs on the LDC. In a recent O&R rate case, DPS Staff testified that interruptible rates for all customers should be capped at 70% of the firm rate.[5] National Grid's existing interruptible rates are particularly inappropriate when applied to generators such as the Facility in light of the Commission's determination in the March 17, 1999 Order that rates for gas transportation for generating facilities should be "significantly lower than the rates for other large volume users."[6] Accordingly, Syracuse respectfully submits that transportation rates under National Grid's Rate Schedule SC-14 should not be allowed to exceed 50% of the otherwise applicable firm delivery rate.

---

[5] Case 14-G-0494, Prepared Testimony of Staff Gas Rates Panel consisting of Andrew J. Novak, Andrew M. Timbrook, and Johanna Miller at 42-43 (filed March 20, 2015).

[6] March 17, 1999 Order, slip op. at 5.

III. ALTERNATIVELY, THE COMMISSION SHOULD RESTRUCTURE THE VAC TO AVOID THE UNFAIR AND EXCESSIVE CHARGES THAT RESULT WHEN THAT FORMULA IS APPLIED TO THE FACILITY

If the Commission elects not to cap the rate for transportation service under Rate Schedule SC-14 to 50% of the firm rates as proposed in the preceding section, then the Commission should restructure the Value Added Charge in National Grid's Rate Schedule SC-14 to ensure that it does not subject older generators such as the Facility to unreasonably high charges. Because of its relatively high heat rate and the abundance of low-cost generation in upstate New York, the Facility operated less than 8 percent of the time in 2014 and less than 4.5 percent of the time in 2013. Unfortunately, the VAC compares the relatively high spark spreads occurring during these very limited peak periods during the test year to the average spark spread for all 8784 hours during an historic base period (the first year of NYISO operations). As a result, the VAC charge for generators forced to operate as peaking facilities is far greater than the VAC charge for base load generating facilities that operate in all or substantially all hours of the year.

To demonstrate the bias against generating facilities that only operate during periods of peak demand inherent in the VAC, Syracuse calculated the average spark spread for the top 8 percent and top 4.5 percent of the hours during the Base Period. The average spark spread for the top 8 percent of the hours during the Base Period was $54.38. The average spark spread for the top 4.5 percent of the hours during the Base Period was $82.75. The average spark spread for all 8784 hours of the Base Period was ($9.75). When the VAC calculation is performed using these spark spread values, the Facility's 2015 VAC is reduced from $0.50/DT to $0.22/DT, while its 2014 VAC is reduced from $0.37/DT to $0.07/DT. It is important to note that these are conservative calculations, since it is not at all clear that the limited number of hours that the

Facility operated in 2013 and 2014 all occurred during the highest cost hours of those years, as this calculation implicitly assumes.

The unfair impact of the current VAC methodology on generators operating only during peak load periods is particularly troubling in light of the clear understanding of the importance of avoiding unfair cost allocations to peaking facilities expressed by the Commission in the March 17, 1999 Order. In that Order, the Commission rejected a proposal to collect the VAC on a demand basis, due to the unfair impacts of that rate design on peaking facilities:

> The parties' concern is valid. For example, a $.15/dt demand rate effectively equates to a $.60/dt commodity rate for a 25% load factor generator and conceivably in excess of $1.00/dt for peaking generators. In an effort to make the proposed tariff more suitable for a wider range of load factors, we revise our proposal so that both the common cost component and the marginal cost component are commodity based.[7]

Syracuse respectfully submits that the current VAC calculation must also be revisited to make that calculation more suitable for generating facilities operating only during periods of peak demand.

IV. THE COMMISSION SHOULD REQUIRE NATIONAL GRID TO PROVIDE BALANCING SERVICES UNDER RATE SCHEDULE SC-14 WHERE SUCH SERVICES ARE NOT AVAILABLE FROM OTHER SOURCES ON COMMERCIALLY REASONABLE TERMS

At the present time, National Grid is providing balancing service to Syracuse under the provisions of the SC-9 Agreement and Rule 17.5.1 of the Tariff, under which National Grid also provides balancing service to Marketers and to Direct Customers. As previously noted, however, National Grid's Rate Schedule SC-14 expressly prohibits the utility from providing balancing services to customers served under that rate schedule, and Syracuse is unable to obtain balancing

[7] May 17, 1999 Order, Appendix 2 at p. 2.

services on commercially reasonable terms from other sources. In such circumstances, National Grid must be required to provide needed balancing services under Rule 17.5.1 on the same terms those services are offered to Marketers and Direct Customers. By authorizing National Grid to provide needed balancing services in such circumstances, the Commission will eliminate an unnecessary roadblock to the continued operation of existing gas-fired generating facilities in National Grid's upstate New York service territory.

V. THE COMMISSION SHOULD REQUIRE NATIONAL GRID TO CONTINUE TO SERVE THE FACILITY UNDER ITS EXISTING SC-9 AGREEMENT UNTIL NATIONAL GRID IMPLEMENTS NEW TARIFF PROVISIONS FULLY RESOLVING THE CONCERNS SET OUT IN THESE COMMENTS

Even after the implementation of the changes to Rate Schedule SC-14 proposed by National Grid in this proceeding, the provisions of that rate schedule will continue to subject Syracuse to unreasonably high delivery rates and will deprive Syracuse of access to needed balancing services. Until these problems can be addressed through the adoption of the new tariff provisions requested by Syracuse in these Comments, the Commission can and must continue to require National Grid to honor the terms of its existing SC-9 Agreement with Syracuse for service to the Facility.

Respectfully submitted,

/s/

George M. Pond, Esq.
Barclay Damon, LLP
80 State Street
Albany, New York 12207
TEL: 518.429.4232
FAX: 518.427.3486
gpond@barclaydamon.com

Attorneys for Syracuse LLC

Dated: June 12, 2015