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March 12, 2013

BY E-FILING
Jeffrey C. Cohen, Acting Secretary
NY State Department of Public Service
Three Empire State Plaza
Albany, NY 12223-1350

RE: CASE 12-G-0297 Proceeding on Motion of the Commission To Examine Policies
Regarding the Expansion of Natural Gas Service

Dear Acting Secretary Cohen:

In accordance with the extended deadline established in the Notice dated February 7, 2013, we respectfully file herewith the Comments of St. Lawrence Gas Company on the issues set forth in the Commission's Notice Soliciting Comments in this proceeding. Also enclosed is the Party Status Request Form for St. Lawrence Gas Company and a Party Representative Form.

Should there be any questions on this filing, kindly contact the undersigned.

Sincerely,



Eric J. Krathwohl

Encl.

cc: Cynthia McCarron
James P. Ward

Barriers to Extension and Expansion of Natural Gas
Facilities

1. Please explain your understanding (and for utilities, your implementation) of Commission regulations and the Natural Gas Expansion Policy including your views on whether they encourage or deter expansion of the natural gas delivery system in New York State. Do you feel that the Commission regulations and Policy should be modified and if so, how?

Response: The Company understands that the current Natural Gas Expansion Policy includes a five-year development period that requires the utility to earn its allowed rate of return by the fifth year. If the utility forecasts that it will not earn its allowed return on the system extension by the fifth-year then it may assess surcharges for a period of five years. The policy includes a provision allowing the utility to submit alternate standards of feasibility. The current policy also includes the provision that new franchise expansions that follow the provisions of the policy bear a presumption of prudence and shall be allowed normal ratemaking treatment after the development period. The system expansions undertaken by the Company have generally been implemented in accordance with this Expansion Policy, with the five year surcharge period. The current policy does not encourage expansion. Rather, the current policy limits the amounts that can be charged new customers who are receiving the benefits of a system expansion. Where those customers have total choice of whether they take service off a newly expanded natural gas system, there should be greater flexibility for the utility to be able to earn a return on such an expansion commensurate with the risk that the utility assumes in expanding its system. With any expansion project 100% of the risk is born by the utility. Risks relating to customer capture, costs of construction and environmental costs are significant. For customers located within an expansion area the risks are very small compared to the potential return related to energy savings. In some instances large customers can see a return far greater than the return allowed the utility. Utilities should be able to offset low returns during the development period with higher returns in later years to offset the potential risk and encourage expansion.

A modification in Commission regulations and Policy to expand the development period and customer surcharges from 5 years to 10 years on new expansion projects could provide an appropriate incentive for a utility to undertake the potentially major efforts and significant risks associated with future system expansions. If

the period is extended, the utility will have a better chance to achieve a significant enough level of customer penetration to be able to earn the sorts of return that will provide the incentive to undertake significant rural expansion projects.

2. Regarding the Commission's regulations of the natural gas delivery system and the system itself, do you believe that the interests of utility shareholders, ratepayers, and the State as a whole are aligned? Please explain.

Response: With respect to system expansion, the Company believes that the uncompensated risks upon utilities are a deterrent to system expansion in some cases, so in that context there is not sufficient alignment of interests of utility shareholders, ratepayers and the State. Should the Commission allow an extended period of development and customer surcharges, the Company believes that then there would be an appropriate alignment. It is certainly a sound policy goal to foster and encourage efficient expansions of natural gas systems for economic development and environmental benefits that result from the expanded use of clean, low cost natural gas.

3. Are there provisions of current policies or regulations that appropriately incentivize the expansion of the natural gas delivery system in New York State? Are these sufficient? If not, please suggest alternatives.

Response: No. As discussed in the response to question #1 the risk of expansion is not adequately addressed in the rate of return allowed to the utility.

4. Identify current barriers inhibiting conversion to natural gas usage from other heating fuels - other than the cost of replacing heating equipment. Please explain how the barrier inhibits conversion and provide suggestions for reducing or eliminating the barrier - including the cost of replacing heating equipment.

Response: Other than the cost of conversion there is no barrier that would inhibit conversion once the expansion project is complete.

5. Please identify the outreach and education efforts currently employed by the utility for the purposes of gauging interest in natural gas service and/or soliciting new customers in areas where interest in the possibility of obtaining service has been expressed. Are the efforts sufficient? How can they be improved? Would expanded or improved outreach and education programs increase conversion to natural gas by customers who reside within the 100 feet zone of existing utility infrastructure (and, accordingly would not pay for the extension)? How can the utility identify, communicate and engage with such customers? When an individual customer requests service,

please describe the utility's efforts to communicate with or solicit other customers in the neighborhood/area.

Response: With the current competitive advantage of natural gas there is no real need to increase the level of outreach provided by the Company over the last few years to attract new customers. The company identifies and canvases potential customers within its service territory. Requests by individual customers are reviewed and a feasibility analysis is performed which includes other potential customers within a reasonable distance from the customer who requested service. Potential customers within the area are canvassed to determine if they would convert to natural gas within 5 years.

6. Please identify the typical flow of communication and information between the utility and a customer requesting service that would require extension of a gas main sufficient to require a surcharge. Please provide any examples of written communication.

Response: When a request for service is received that would require a gas main extension in excess of 100 feet, the company determines the distance from the nearest gas main and identifies other potential customers along the requested main extension.

If it is obvious that the extension would not meet the feasibility requirement the company contacts the customer, usually by phone, and explains that they are too far from an existing distribution system to obtain gas at a reasonable cost. If it appears that a gas main extension may be feasible, a construction cost is estimated and a feasibility analysis is performed.

If feasibility is not met, the customer may obtain service by agreeing to pay the excess cost of construction (CIAC) or by agreeing to pay a surcharge for 120 months, calculated according to the Public Service Commission's formula.

If more than one customer is to be served by the main extension, the utility provides 100 feet at no charge per customer and the excess is paid equally by all customers who wish to obtain service.

7. What issues should be given consideration prior to expansion of the natural gas delivery system? Should such considerations include protections for a group or groups of customers? If so, what should be and what types of protections should be considered?

Response: Existing rate payer impacts from a potential system expansion, both positive and negative, should be considered. The Company believes that the protections under the current policies for existing customers are sufficient and that the protections for potential customers in new expansion areas are not sufficiently flexible to allow the utility to proceed with future expansion in all appropriate circumstances, all as discussed above.

8. Are there existing utility specific pilot programs focused on new approaches to line extensions or new franchise expansions of the natural gas delivery system? If so, please describe the pilot program. If not, could such a pilot program be beneficial and, how would it be designed?

Response: The Company's expansion into Franklin County could be considered a utility specific pilot program however; it has very unique characteristics that would be difficult to repeat. Specific project related grant funding would be especially difficult to duplicate.

Rate and Ratepayer Considerations

9. The Commission's regulations (§230.2[f]) provide that "each corporation may, in its tariff schedules, extend such obligation [to provide certain main and service line extensions without cost to the customer]; to the extent the provision of additional facilities without charge is cost-justified." Identify whether the utility ever provides residential customers with more than 100 feet of gas main or service line without surcharge. Please explain why and under what circumstances or, if never, why not. Is the utility aware of any geographic areas in its service territory where potential cost justified extensions of greater than 100 feet are currently un-served? If not, has the utility ever attempted to ascertain or develop such information? What should be the appropriate length of main and/or service provided without surcharge? Please explain.

Response: Each request for a main extension is reviewed individually as described in the response to question #6. If the estimated return provides at least the allowed rate of return by the fifth year than the extension is run without a surcharge.

The Company is not aware of any areas within the existing service territory that are within 100 feet of a gas main that are un-served.

10. Does the utility provide programs that could assist low income customers or those on a fixed income to overcome the barriers to conversion to natural gas?

Response: The only incentive currently provided is the Company's Energy Efficiency Rebate Program. The program can be used for new customers but is not specifically designed for low income customers.

11. Are there potential funding mechanisms for expansion of the natural gas delivery system other than through utility rates or direct customer payments (surcharges, CIACs or other)?

Response: The Company is not aware of any funding mechanism designed for natural gas expansion. Payment in Lieu of Taxes can be made available in certain instances.

If there are large industrial customers who may benefit from the expansion there may be some state economic development grant funds available. There is however, nothing specifically designed for natural gas expansion.

Certain members of the New York State Assembly have sponsored a bill known as the Natural Gas Infrastructure Act. The bill creates the natural gas infrastructure grant fund for the purpose of subsidizing up to fifty percent of the total cost of projects by the county industrial development agency. The bill is intended to promote the extension of natural gas supply facilities to rural areas for economic development purposes. The Company is not aware that the bill has been passed into law or is currently under consideration.

12. Are existing natural gas efficiency programs adequate and optimal to serve the expansion of customers within 100 feet of existing utility infrastructure? If not, what changes, including possibly the level of funding, could be made to improve the existing efficiency programs? Would efficiency programs targeted to conversion customers result in increased energy savings, and if so, how?

Response: The Company's natural gas efficiency program does not provide an incentive to convert to natural gas. The energy efficiency program provides rebates designed to encourage the customer to select high efficiency equipment. The rebates are not large enough to encourage conversion to natural gas or to offset conversion costs.

13. Do Revenue Decoupling Mechanisms (RDMs) impact expansion of the natural gas delivery system?

Response: No. Revenue Decoupling Mechanisms do not significantly impact the expansion of natural gas delivery systems.

Economic Development

14. Does the utility have any information or estimates concerning the existence of commercial or industrial customers who may add and/or retain jobs if they could switch their process or heating fuel to natural gas? If so, how many jobs might be added or retained?

Response: Yes. Our Franklin County project includes two industrial customers who will be converting to natural gas. One customer currently employs 50 people with plans to increase that number to 60 by the end of 2013. The second customer employs approximately 100 people.

Both plants are dairy related with the support of several hundred farms. The jobs associated with these farms are also positively impacted by the lower energy costs associated with conversion to natural gas.

15. Are there specific industries in the State that would benefit from an expanded natural gas delivery system? Please describe.

Response: Yes. Any industry currently using fuel oil would see a tremendous benefit by converting to natural gas. Any commercial business would see the same benefit and the savings generated from residential conversion would create additional economic benefit for the communities and the state.

Within the Company's Franklin County expansion project there are two industries (Agri-Mark McCadam and North Country Dairy) that will be switching from #6 fuel oil to natural gas. There are also several large state facilities that will switch from fuel oil to natural gas.

Public/Private Partnerships

16. Are there potential partnerships between various entities involved in the energy and heating markets in New York State that could facilitate expansion of the natural gas delivery system? If so, please provide examples and whether your organization would be willing to take part in such a partnership. Who would be best suited for encouraging and developing such partnerships? What role should the public sector play?

Response: As was the case for the Company in its Franklin County expansion, partnerships between the utility and local and state government can facilitate expansion through grant funding and property tax relief. The Industrial Development Agencies play a vital role in the coordination of economic development programs.

17. Are there programs currently administered by utilities or federal, state or local agencies that assist customers with heating fuel conversions? Are there roles that other agencies, such as the New York State Energy Research and Development Authority (NYSERDA), should play in expansion of the natural gas delivery system? Should the Energy Efficiency Portfolio Standard (EEPS) programs be expanded or modified to encourage conversions to natural gas before end-of-life replacements?

Response: NYSERDA could play an important role in the expansion of natural gas delivery systems through programs designed to offset the cost of conversion. The Company believes that the societal benefits of conversions are sufficient for the EEPS to be modified to promote conversion to natural gas via increased customer incentives and financing options.

18. Are there opportunities to coordinate natural gas delivery system expansion projects with other available resources, such as economic development, energy efficiency, or environmental protection? Please provide specific examples, if possible.

Response: Natural gas expansion is an economic development tool. Natural gas availability can promote business and industry and help to retain jobs. Natural gas expansion should be welcomed by the environmental protection agencies as it ultimately provides a cleaner form of energy with very little environmental impact. The Company's expansion into Franklin County received critical support from economic development sources. As discussed above, increased energy efficiency incentives could be established to facilitate conversions which in turn could be coordinated with expansions. Also, with the relative cleanliness of natural gas, there should be similar opportunities for environmental protection.

Environmental Impact

19. Are there changes that could be made to the environmental impact review process involved in granting or expanding gas franchise areas that could improve or streamline the process?

Response: The process is expensive and time consuming. Both factors deter expansion. The tremendous environmental benefits of natural gas seem to play no role in the process or in the environmental oversight by state environmental agencies once the project is under construction. Generally, the process could be streamlined or put on a shorter schedule. Both of those changes would reduce costs and the deterrent effect.

20. Please identify, if any, areas of the State where provision of natural gas delivery service is unrealistic because of environmental constraints, construction permitting requirements or other factors and explain why service to such areas is believed to be unrealistic. Are there any areas of the State that require special consideration regarding expansion of the natural gas system?

Response: There are areas of the state that expansion of natural gas service is seen as unrealistic. The Adirondack Park is one example based on the terrain and the environmentally sensitive nature of the park.

Planning

21. Please explain your utility's natural gas delivery system expansion planning process including any large-scale and or long-term plans that are in place or are being considered.

Response: The Company started a major system expansion project in 2012. The Franklin County expansion project will be the main focus of the Company's expansion plans over the next 5 years. The project includes the construction of a 48 mile natural gas transmission line from the Town of Norfolk, NY to the Village of Chateaugay, NY. Approximately 50 miles of distribution main are included in project plans that will ultimately provide the

distribution of natural gas to several municipalities in St.
Lawrence and Franklin Counties.

6/6/11

NEW YORK STATE PUBLIC SERVICE COMMISSION
PARTY STATUS REQUEST FORM

If you wish to become a party, fill out this "Party Status Request Form" OR use the Department's web interface. A separate request for Party status will be required for each proceeding. Only one form per party is necessary. Additional representatives of a party can be added informally, via an e-mail to the ALJ or Secretary, or by use of the "Party Representatives Form" if desired. To remove or substitute representatives on the Party List, the "Party Representatives Form" is required.

Case No.:	<u>12-G-0297</u>
Case Title (short reference):	<u>Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service.</u>
Date of Request:	<u>3/12/2013</u>

Name of Party (This MUST be filled in. If you are an individual representing yourself, please so indicate):	<u>St. Lawrence Gas Company, Inc.</u>
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Your Name:	<u>Jim Ward</u>
Title:	<u>Assistant General Manager</u>
Firm/Company/Organization, if applicable:	<u>St. Lawrence Gas Company, Inc.</u>
Mailing Address:	<u>St. Lawrence Gas Company, Inc.</u> <u>33 Stearns Street</u> <u>Massena, NY 13662</u>
Telephone Number:	<u>315-842-3616</u>
E-mail Address:	<u>jpward@stlawrencegas.com</u>

Please state here the nature of the party's interest in the case, including, if applicable, how the party's participation might contribute to the development of a complete record or is otherwise fair and in the public interest:

St. Lawrence Gas Company, Inc. provides gas service to customers in New York State. St. Lawrence Gas Company, Inc. is a gas corporation regulated by the New York State Public Service Commission ("Commission"). St. Lawrence Gas Company, Inc. seeks party status because the case could impact the company's natural gas delivery system. St. Lawrence Gas Company, Inc.'s participation in this proceeding will also contribute to the development of a complete record and is otherwise fair and in the public interest.

ELECTRONIC SERVICE OF DOCUMENTS ISSUED BY PARTIES UPON EACH OTHER:

We will presume that, by providing your e-mail address, you are consenting to electronic service of documents upon you by other parties, and you agree that you will electronically serve all other parties except those who have not consented to electronic service, whom you must serve by mail or hand delivery.

Check the ***box*** below if the party does not have the ability to send and receive e-mail:

I do not have the ability to send and receive e-mail. Therefore I do not consent to receive electronic service and I do not agree to serve other parties by e-mail. Instead, I request that documents be served upon me by mail or hand delivery.

Note: Whether or not you have an e-mail address, if you require use of a different means of service of some or all documents between parties, then you may, pursuant to 16 NYCRR §3.5(e)(2), 1) apply to the Secretary or presiding officer and make a showing of good cause why you should be allowed to use a different means of serving or receiving service of documents, or 2) agree with other parties on a different means of service and file such agreement with the Secretary or presiding officer with a signed copy of this form.

ELECTRONIC SERVICE OF DOCUMENTS ISSUED BY THE COMMISSION:

If you consent to receive Commission-issued orders electronically, you will receive all Commission-issued documents electronically. If you do not consent to receive Commission-issued orders electronically, you will receive all Commission-issued documents by mail.

Check the ***boxes*** below if the party consents to have the Commission serve orders that affect such party upon the party by electronic means only, pursuant to 16 NYCRR §3.2(b)(1).

I am authorized by the party to grant consent to receive electronic-only service of Commission-issued orders, AND

I, on behalf of myself or the party I represent, knowingly waive the right specified in Public Service Law §23(1) to be served personally or by mail with orders that affect me or the party I represent and consent to receive service of Commission-issued orders by electronic means only, such consent to remain in effect until revoked.

Note: Any party specifying terms of its consent to receive service by electronic means of Commission-issued orders other than that the consent would remain in effect until revoked, shall state such terms with respect to e.g. duration, persons consenting or types of documents, in writing to the Secretary or presiding officer *with a copy of this form.*

SUBMISSION OF THIS FORM:

If you have consented to electronic service of documents among the parties and of orders issued by the Commission, please e-mail this form to Secretary@dps.ny.gov AND serve it upon all parties (including any presiding ALJ) on the Parties List for this case, if such a Parties List is posted.

If you:

- (a) do not have the ability to send and receive e-mail or for some other reason will request permission from the Secretary or presiding officer to serve and be served by other parties by means other than electronic service OR
- (b) do not consent to electronic service of Commission-issued orders, including orders that may affect you, as indicated above,

sign below and mail a hard copy of this form to the Secretary, NYS Public Service Commission, Three Empire State Plaza, Albany, NY 12223-1350. ALSO, you must mail or e-mail or deliver copies to all parties (including any presiding ALJ) on the Parties List for this case, if such a Parties List is posted.

Signature: _____	Date: _____
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* * * * *

Your request to be a party is subject to the right of other parties to object and subject to the final determination of the Administrative Law Judge, if one is assigned, or to the Secretary if no Administrative Law Judge is assigned to this case.

NEW YORK STATE PUBLIC SERVICE COMMISSION
PARTY REPRESENTATIVE FORM

If you represent a party that has already submitted and served a "Party Status Request Form," you *may* use this form to indicate an additional representative of the party you wish to place on the Parties List. (Alternatively, you may send an e-mail to the ALJ, if one is assigned, or to the Secretary.) You *must* use this form to request removal or substitution of representatives of the party.

Case No.:	<u>12-G-0297</u>
Case Title (short reference):	<u>Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service.</u>
Name of Party:	<u>St. Lawrence Gas Company, Inc.</u>
Date of Request:	<u>3/12/2013</u>

The above-named Party requests that the following individual be added to the Parties List to receive documents in this case:

Name:	<u>Eric J. Krathwohl</u>
Title:	<u>Managing Director</u>
Firm/Company/Organization, if applicable:	<u>Rich May, P.C.</u>
Mailing Address:	<u>Rich May, P.C.</u> <u>176 Federal Street, 6th Floor</u> <u>Boston, MA 02110</u>
Telephone Number:	<u>617-556-3857</u>
E-mail Address:	<u>ekrathwohl@richmaylaw.com</u>

The person named below should be removed from the Parties List; another representative, either the person named above or others already listed on the Parties List, will continue to represent the party: (DPS Staff or the Presiding Officer may seek proof of authority to remove or make substitution of representatives.)

Name:	_____
Title:	_____
Firm/Company/Organization, if applicable:	_____
Mailing Address:	_____
Telephone Number:	_____
E-mail Address:	_____