



**Mary Krayeske**  
Senior Attorney

March 12, 2013

**Via Electronic Mail**

Honorable Jeffrey C. Cohen  
Acting Secretary  
State of New York  
Public Service Commission  
Three Empire State Plaza  
Albany, NY 12223

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:

Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. hereby file their comments and responses to questions propounded by the New York State Public Service Commission's Order Instituting Proceeding and Establishing Further Procedures, issued on November 30, 2012.

If you have any questions, please contact me.

Very truly yours,

*/s/ Mary Krayeske*

Mary Krayeske

Enclosure

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

Proceeding on Motion of the Commission to  
Examine Policies Regarding the Expansion of  
Natural Gas Service

Case 12-G-0297

**COMMENTS AND RESPONSES TO QUESTIONS OF  
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. AND  
ORANGE AND ROCKLAND UTILITIES INC.**

Consolidated Edison Company of New York, Inc. (“Con Edison”) and Orange and Rockland Utilities, Inc. (“O&R”), (together, the “Companies”) appreciate this opportunity to comment on the *Order Instituting Proceeding and Establishing Further Procedures* (“Order”), issued November 30, 2012, by the New York State Public Service Commission (“Commission”) relating to the expansion of Natural Gas. The Order suggests that given the current (and projected future) low price of natural gas, there are significant benefits to New York State in expanding the franchise area for natural gas as well as for having customers in un-served gas areas receive gas service. The Companies believe that by working together, the State, the Commission and the utilities can accomplish much in this area.

As the Commission noted, the benefits of using natural gas include the current (and forecasted) low price relative to other heating fuel alternatives, the lower emissions levels from using natural gas as compared to other alternatives and the benefits for economic development associated with lower fuel source prices. The Companies agree that these benefits are possible with the increased use of natural gas.

The Companies’ responses to the twenty-one questions posed by Staff contemplate ways in which to improve the gas expansion process both for underserved customers within utility service territories and those that are outside of gas franchise areas. There are similar proposals in other jurisdictions that may be useful for the Commission to consider. For example, funding sources for expansion projects in other jurisdictions have included pipeline refunds, unspent program funds, surcharges on all firm customers or on all new customers. In addition to the comments below, the Companies’ would be willing to consider these potential types of funding sources as well as proposals utilizing state or local governmental funding mechanisms to defray expansion-related costs.

The Companies’ look forward to continuing a dialogue with Staff as well as with other parties to this proceeding. The following is the Companies’ response to the questions promulgated. Responses to multiple questions have been combined where it was expedient to do so.

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?
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.
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.
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 customer? If so, what should be and what types of protections should be considered?

**Combined Response:**

The Companies' understanding of the Natural Gas Franchise Expansion Policy ("Policy") is that the policy applies to expansion of gas service by an existing regulated natural gas distribution company to new franchise areas. Financial impacts of the expansion, including costs and forecasted revenues, are analyzed over a 5 year development period. If a new franchise proposal will achieve a utility's allowed return on equity ("ROE") by the fifth year of development, then the costs and revenues of the expansion will be afforded normal rate treatment consistent with other capital investments. If a new franchise proposal will not achieve the utility's allowed ROE by the fifth year, then:

- The average annual revenue deficiency during the development period is identified on the basis of projected revenues and costs.
- Utilities may assess a surcharge, based on the average annual revenue deficiency, on all sales in the new franchise for up to five years.
- Surcharge revenues are excluded from rate case determinations.
- At the end of fifth year, the surcharge ends and the costs and revenues that result from the franchise expansion are afforded normal rate treatment, with a "rebuttable presumption of prudence."
- Alternative standards for economic feasibility may be proposed by utilities.

The current Policy places risk on the utilities in two ways: (1) the expense for development projects is front-loaded, while the recovery of that expense is back-loaded in that such recovery is a product of revenue from new customer connections. This creates a timing risk related to the utility's initial investment in the project; and (2) ultimately, the utility bears the risk that the projected revenue resulting from the project will not materialize. Both of these risks create a disincentive for expansion under the Policy. In revisiting the Policy, the Companies' suggest that the Commission consider the impacts of these risks and the optimum means of minimizing them in order to support the construction of increased gas infrastructure in the State.

In evaluating policy changes, the Companies' provide the following principles as guidance:

- Expansion policies should provide societal benefits, including affording customers enhanced access to low cost, clean natural gas as a fuel and furthering economic development, environmental goals and the reduction of imports of foreign fuel oil.
- New/expanding customers (as the primary beneficiaries of the infrastructure expansion) should be required to meet any financial commitments that they have agreed to, even if they opt out of the project at a later date after they have initially signed on to the project.
- Utilities should not face a risk for non-recovery of capital investments due to unforeseen circumstances, for example, local or state policy changes that could not have been anticipated by the utility.
- Each utility should continue to exercise flexibility to determine specific implementation details reflecting the unique circumstances of their gas distribution systems (such as differences in the cost of construction or geography) and the need to maintain system reliability.

Considering the foregoing principles, the Companies' suggest that the Policy be modified to:

- Allow for Distribution System Expansion Charges ("DSEC") to be assessed on a case-by-case basis (done in conjunction with a development period surcharge on new customers). The DSEC reduces risk to the utility by making up for revenue shortfalls resulting from the timing of expansion investment and customer revenues, encouraging utilities to make cost-effective investments in franchise expansion.
  - The DSEC would make up the revenue shortfall for that portion of the expansion costs not covered by the development period surcharge and rate contribution by customers in the new franchise area.
  - The DSEC would be spread over the total customer population of the service territory, including the area where the franchise expansion is occurring.
  - The DSEC would be implemented automatically as investments are placed into service.
  - The Companies will develop the process and criteria for implementing the DSEC, subject to further discussions with DPS Staff and other stakeholders.
- At the option of each utility, allow the development period in new franchise areas during which a surcharge may be applied to be extended from five years to eight to ten years and beyond.
  - Longer development periods reduce the monthly level of surcharge to expansion customers, financing some of the costs of infrastructure expansion over a longer period and potentially allowing more customers to commit to switching.
  - Existing customers are indifferent to the length of the development period, and are not harmed by a longer period.
  - Expanding the customer base benefits all customers by spreading certain fixed costs over a greater number of customers.

- For periods longer than ten years, the utility and Commission would have to agree on the treatment for this new franchise area.
- Establish an “expansion window” period over which time potential natural gas customers in the new franchise area can indicate binding interest in taking new gas service; this proposal can be done separately from the prior two suggestions.
  - Customers submit a deposit (or other security instrument acceptable to the utility) to confirm expression of interest.
  - If a sufficient number of potential customers commit, the utility will proceed with construction.
  - The customer deposit will be refunded if the utility does not build; if the utility does build the infrastructure and the customer backs out after infrastructure has been installed the utility would keep the deposit.
  - This increases the likelihood that potential customers expressing interest actually take gas service; similarly, this also protects the existing customer base by reducing risk that expansion revenues are less than forecasted.

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:**

While the Companies note below some of the challenges to gas conversions, there will always be a portion of potential customers who will not switch. The Companies have grouped the barriers according to the source of the challenge.

A. **Challenges Arising from Customer Concerns**

- **Customer Inertia:** Conversions frequently occur when a customer must take action, *i.e.*, when their heating system must be replaced or for regulatory reasons. Otherwise, there is no pressing need for action and customers can more easily be deterred by the immediate equipment and other costs associated with conversion (even when there is no cost from the utility for the infrastructure) and the time and energy required to complete a conversion project. Reducing the customer's total cost to convert (for example, through "clustering" or other techniques to aggregate customer conversions in an area and thereby reduce or eliminate Contribution in Aid of Construction ("CIAC") charges) and providing assistance to the process are both means of overcoming customer inertia. Increased energy efficiency incentives may also help to motivate customers to convert to high efficiency gas heating systems before the end of the life of their alternate fuel equipment.
- **Costs:** Expenses associated with plumbing, piping and trenching from the service line, which may vary significantly depending on contractor and area.
- **Unfamiliarity with the Product:** Some customers lack familiarity with the product, its safety properties as compared to other more volatile fuels, such as propane, and the safety measures taken by utilities associated with natural gas service. Education is needed so that customers can make more informed fuel comparisons.
- **Opposition to Technology and Other Expansions:** Customers and others oppose the installation of equipment and other improvements because they do not want this equipment in their backyard. There is significant opposition to fracking, to compressor stations and to interstate pipeline expansion. This challenge may be addressed through enhanced customer education efforts.

B. **Challenges Arising from Costs Imposed by Municipal Action**

- **Permitting Fees:** Permitting fees that vary by municipality and from agency to agency, and can reach significant levels where the increase in costs to the customer of necessary construction discourages conversions. Furthermore, some municipalities set

a standard permit fee, but then charge an inspection fee that is calculated by the linear foot. This can add five to ten percent to the cost of a project.

- **Municipal Requirement Issues:** Inconsistent and expensive municipal requirements that increase project costs can also deter natural gas conversions. These include:
  - Cover requirements as high as five feet by municipal and transportation authorities;
  - Chimney lining/inspections;
  - Special requirements for fill, such as k-crete;
  - Night work required on roads that are not Federal Highways;
  - Curb to curb paving and other road restoration activities that shift road improvements from the taxpayers to utilities; and
  - Installation of other improvements, such as culverts, that benefit the municipality.
- **Licensing Issues:** The licensing process can be lengthy and differs from municipality to municipality for installers creating customer confusion and increasing the cost of a project.
- **Timeliness Issues:** Requests for gas service are usually time sensitive, with customers seeking to begin service before the winter heating season. Delays in construction that may affect a customer's desired start date before the winter begins may inhibit conversion activity. Delays can be caused by the following:
  - Burdensome requirements for State DOT permits, including full sets of drawings for minor work;
  - Extended timelines to obtain reviews from agencies for permit approvals; and
  - Time consuming processes for obtaining stream crossing permits.

These issues could be addressed by a greater effort among municipalities to agree to standardized requirements in order to expedite construction projects.

### C. Challenges from Costs Arising from Environmental Factors

- **Geographic Challenges:** In Con Edison's Westchester service territory and O&R's service territory, one of the most significant issues in terms of both the cost and timing of gas projects is the terrain, including the prevalence of rock that is near the surface and the hilly nature of the landscape. It is very expensive to trench or drill in rock and the costs of an extension can be formidable, even for relatively short distances. Due to the nature of the terrain, roadways are generally the most accessible route for main extensions, which can increase both the time and length of construction.
- **Oil Tank Removal:** Issues associated with removal and/or clean up of oil tanks create additional challenges for customers. The challenges are not just economic, but also increase the time and effort required to move forward with a conversion project.

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:**

Con Edison is actively soliciting #4/6 fuel-burning customers in its New York City portion of the service territory as these customers have a regulatory impetus to convert based on the existing regulations in New York City. Con Edison has been, and continues, to contact customers individually, that are in certain geographic zones known as "area growth zones." Con Edison communicates through direct marketing (calls to potential customers, site visits, etc.), through a page on the Con Edison website that is dedicated to gas conversions ([www.conEd.com/gasconversions](http://www.conEd.com/gasconversions)) and through work with our channel partners (such as the City of New York, the real estate community, and plumbers and other contracting associations). Con Edison will also be requesting approval from the Commission for increased tariff flexibility in a forthcoming filing in an effort to decrease the utility costs to convert customers within these area growth zones. Con Edison believes that the ability to analyze costs and associated revenue in building-dense, urban areas by area growth zone, rather than on a zone by zone basis, will provide the greatest opportunity for customers to connect with a zero capital construction cost without burdening the firm rate base.

Regarding the portion of the question related to speaking to customers in the neighborhood, in instances where Con Edison customers have been notified that there will be significant costs that they must support in order to move forward with infrastructure construction, Con Edison attempts to help them "cluster" with other buildings in an effort to reduce the costs. However, clustering itself has presented significant challenges as it is difficult to get customers to be ready at the same time and customers who commit early often are upset having to wait for the "last" participant. All interested customers must proceed through the standard process to request service, which includes submission of a work request. Customers are analyzed individually to determine if they are service adequate and if not, go through additional analysis to see if other pending requests or potential additional customers can defray or eliminate the cost. Con Edison communicates that with customers directly and also involves its channel partners where appropriate and at the customer's request. Con Edison also encourages customers to work with neighbors in order to lower the overall cost of the project.

Similar to the Con Edison efforts, when an O&R customer requests natural gas service where service is not immediately available, O&R communicates with other potential customers in the area through a mailer or door-to-door marketing effort. Often an O&R representative will visit the potential customers within the neighborhood at a town hall or community building and will host an informational session to explain the process of converting to natural gas. O&R's communication regarding the potential of converting to natural gas has helped it to maintain a

steady flow of conversions over the past three years. It is anticipated that the improvements to its website will further drive conversions. Nonetheless, despite the lower natural gas prices, the conversion rates are not as high as before the economic downturn.

O&R also staffs informational booths at home and trade shows throughout its service territory with a member of O&R's New Business department to discuss opportunities to switch to natural gas and the various incentives available. In addition, customers are periodically reminded about the opportunity to convert to natural gas through bill inserts, print media, and the O&R website. O&R also holds regular meetings with HVAC contractors and works closely with the various economic development agencies in its territory, such as the Orange County Partnership, to identify possible areas for development and work with potential buyers to encourage the use of natural gas. All potential natural gas customers can access an internet form on [www.ORU.com](http://www.ORU.com), where they can inquire about the availability of natural gas service from the Company.

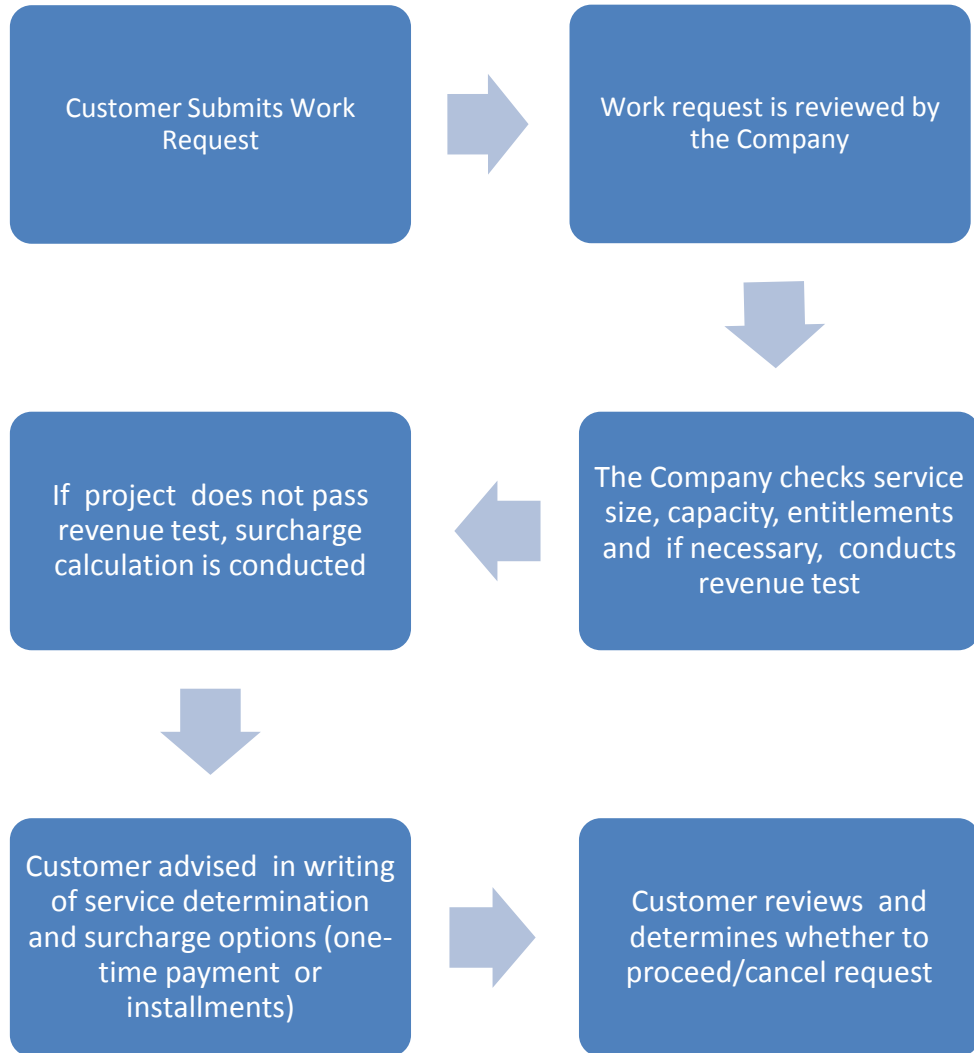
Additionally, O&R is currently working on enhancements to its website to assist customers with information about natural gas and the steps to take to convert to natural gas. These enhancements will include information about how the price of natural gas compares to other fuels, the incentives available to assist with switching to natural gas, and a step-by-step guide to assist customers with converting to natural gas. O&R will also provide customers with a calculator that will allow customers to compare the cost of natural gas versus other fuels and identify the cost savings associated with a more fuel efficient heating system. The enhancements will include a "Frequently Asked Questions" section and a "Look-up" tool that will allow customers to determine if natural gas is available in their area. When a customer wants to take the next step and apply for natural gas, a link will be available that will take them to O&R's Project Center so that they can apply for natural gas electronically.

As discussed more fully in the response to Question 4 (re: addressing conversion challenges), while additional communication and education could be beneficial towards increasing customer interest in converting to natural gas, the Companies believe that enhanced communication and customer education alone may not be sufficient to make significant headway in expanding gas service in the State, and additional conceptual approaches may be needed to address customer inertia.

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:**

Con Edison and O&R follow the procedure below.



The Companies make every effort to bring new space heating customers onto the gas system at a zero capital construction cost without affecting the firm rate base but in some circumstances, they are unable to do so after entitlements have been applied and revenue tests are run for the premises. In these circumstances, customers are provided with the option of paying a surcharge to connect to the system which can be paid as a lump-sum or in installments. O&R's sample surcharge agreement is attached.

Appendix A

**Form of Agreement for Gas Line Extension Surcharge**  
**ORANGE AND ROCKLAND UTILITIES, INC.**  
**AGREEMENT FOR GAS LINE EXTENSION SURCHARGE**

Date \_\_\_\_\_, 20\_\_

The UNDERSIGNED, (hereinafter called "Customer") hereby agrees with ORANGE AND ROCKLAND UTILITIES, INC. (hereinafter called "Company") to make annual or rateable surcharge payments to the Company for gas service provided to the premises owned by Mr. Customer Name located at: 100 ABC Road, Chester NY 10918.

**TERMS OF THIS AGREEMENT:**

- (1) This surcharge constitutes a repayment with interest by the Customer, in equal installments, over a ten-year period of the Customer's share of the cost of the installation and materials for the gas main extension required to provide gas service to the above premises.
- (2) The surcharge payments are in addition to the payment each billing period of the Company's charges for residential gas service in accordance with the applicable service classification.
- (3) The Customer may elect to convert the surcharge to a lump-sum payment and pay it off at any time during the ten-year surcharge period. The Company shall credit, against the lump sum payment, the amount of principal previously paid. The Customer will be required to pay the remaining principal amount without any further interest charge.
- (4) The Customer may elect to pay a lump sum payment in lieu of surcharge prior to construction. If additional customer(s) take service from the installed gas main extension during the ten year surcharge period, the applicant will receive a prorated refund based on tariff entitlements. If after ten years from the date of this agreement any remaining portion of the lump sum payment has not been refunded to the applicant, the company shall retain such amount.
- (5) If additional customers subsequently take service from the gas main extension within ten years of the initial applicant's taking service from it, this surcharge shall be recalculated and prorated for the remaining years.
- (6) If the premise is sold during the surcharge period, the Customer shall inform any subsequent owner of any remaining surcharge. The subsequent owner shall be responsible for payment of the surcharge and will be entitled to any adjustments or credits, if applicable, resulting from recalculations as described in (5) above.

**THE APPLICANT HEREBY AGREES TO INFORM ALL PROSPECTIVE PURCHASERS OF THIS PROPERTY OF ANY UTILITY SURCHARGE WHICH MAY BE IN EFFECT AT THE TIME OF THE PURCHASE.**

ACCEPTED:

CUSTOMER

By: \_\_\_\_\_

Date: \_\_\_\_\_

ORANGE AND ROCKLAND UTILITIES, INC.

By: \_\_\_\_\_

Date: \_\_\_\_\_

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:**

Con Edison has had three pilot programs with respect to line extensions.

The first is a pilot program with Columbia University beginning in 2011. The school became the “anchor” customer and because of the amount of work required to serve them, Con Edison was also able to offer other customers along the main extension a zero capital cost solution. Con Edison conducted both direct and indirect marketing to the customers along the main extensions to solicit conversion requests. The Columbia University project has several phases; marketing in the area has been phase-specific and is ongoing.

The second is the “clustering” concept where Con Edison has already received some customer interest at various points along a potential main extension and then solicited additional customer interest by having meetings with the potential customers along the proposed route and working with our channel partners to drive further interest. This clustering approach had varying degrees of success; customers who solicited their neighbors, had a single owner/representative for the property, and shared contractors tended to be more successful at completing a project than those where “cold calling” efforts were required. Clustering also poses a challenge when the initiating party is ready for the main extension to be constructed and the rest of the participants need additional time or resources before they are ready.

Finally, Con Edison is currently conducting (as of October 2012) an area growth pilot for twelve zones within New York City in an effort to target specific neighborhoods (dense with heavy oil burners and geographically desirable to do main extensions in) to construct (in 2013) the necessary gas infrastructure to provide service to interested customers as well as leaving capability for future growth. Con Edison implemented its “lessons learned” from each of the prior pilot programs and believes this approach to be the easiest for customers and the most responsive to their requests for longer lead times before main extensions are completed. Publishing our targeted construction dates in advance has been well received and the goal is to provide this information to the market twelve months in advance.

As noted earlier, we believe this pilot program will be more successful with additional tariff flexibility, which Con Edison will be seeking approval for in the near future.

O&R had one pilot program which started in 2005, although it has now been terminated. The purpose of the program was to facilitate business expansion within O&R’s gas distribution system in order to aid in the economic development of Orange County, New York. The pilot program applied to projects that would foster the expansion of economic activity and job attraction within the Orange County boundaries of the Company’s franchise area. The minimum construction cost threshold for projects to be considered under the pilot program was \$250,000. Some of the selection criteria for a project included: (i) capital investment; (ii) number of jobs created or retained; (iii) incremental utility revenue; (iv) expansion or potential relocation out of

service territory of businesses; and (v) amount of the applicant's contribution and/or financing leverage from municipal agencies. Each project could be funded up to an amount equal to 50 percent of the revenue requirement necessary to support O&R's allocated rate of return and associated carrying costs. The level of funding was accrued in a deferred regulatory asset capped at \$750,000 for each three-year rate period. All completed projects were included in rate base at the conclusion of the Pilot Program.

From 2007 through 2009, O&R completed six natural gas main extension projects through the Pilot Program. The projects consisted of 3,000 to 6,500 foot gas main extensions per project in areas where there was available vacant land, properly zoned for commercial growth, and where the presence of natural gas would help stimulate economic development. Gas main installation costs ranged from \$252,000 to \$337,500. The potential for job creation from the individual projects ranged from ten jobs to over 300 jobs, depending on the level of development achieved through the project. O&R consulted with the Orange County Partnership to arrive at a method to determine the number of jobs that could be created if the vacant land along the project's corridor was developed. Each project required extensive research and meetings with local officials, current and prospective customers, as well as realtors and development agencies to forecast potential growth and customer-use. Although projects were reviewed throughout the two rate periods, it became progressively more difficult to find projects meeting the criteria of the Pilot Program.

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:**

The Companies' utilize the existing regulations as a guide for costs applicable to new business customers. For example, Con Edison's Gas Tariff states, "Whenever the total adjusted gas revenue from all customers served from a main extension shall equal or exceed 40% of the cost of such extension in excess of that required to be provided without charge, in each of any two consecutive calendar years," the surcharge shall cease. Therefore, when a main extension is cost-justified, there is no surcharge required. O&R has similar tariff language. The Companies' are not aware of any specific cases where we provided a main extension without charge that was in excess of the entitlement and was not cost justified.

Con Edison's service territory consists of Manhattan, Bronx, parts of Queens and Westchester. Con Edison is not aware of any areas in Westchester where potential cost-justified extensions of greater than 100 feet are currently un-served. If such areas exist, when the customer requests are submitted, Con Edison will evaluate and provide the gas main extension without charge according to the Gas Tariff. Expansion is an opportunity to grow the business while maintaining the integrity of the system for the existing customers. However, such growth needs to be evaluated against the potential impact on the existing system conditions and potential significant infrastructure upgrades which would be assessed at the expense of the existing firm ratepayers.

Similarly, in Con Edison's New York City service territory, most City blocks have existing gas mains. As a result, extensions to the existing system are less prevalent. However, adding significant new load to the existing infrastructure would require reinforcement to meet the minimum pressures required to serve the new customers while maintaining the integrity of the gas system for existing firm ratepayers.

Each job is site specific and the costs to provide service without charge depends on factors such as the location, road/street conditions, paving/restoration, crossings, load requests, system impact, etc. The current 100 foot entitlement enables continued growth without a significant impact on future rates. In lieu of expanding the main/service footage entitlement, an economic test for area growth, as Con Edison will seek authorization for shortly, will provide for the ability to grow the system strategically to maximize the potential revenue while minimizing the cost of such infrastructure improvements.

For O&R, there are areas within its service territory where, with sufficient customer interest, extensions beyond 100 feet could be cost justified. These areas include parts of Middletown and Tompkins Cove. With respect to extensions of gas service, a customer is charged for the footage beyond 100 feet whenever O&R is trenching the natural gas service.

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?
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?
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?

**Combined Response:**

Utilities and other entities in the State offer programs which provide assistance to customers, including qualified low income customers, to convert to natural gas.

**Programs Offered by Other Entities**

NYSERDA offers on-bill recovery financing to customers who are interested in taking out a loan to fund energy efficiency upgrades, and paying that loan back on their utility bill. Measures that are eligible for the loan include the installation of high efficiency natural gas furnaces, natural gas boilers and natural gas water heaters.

The Orange County Weatherization Referral & Packaging Program (“WRAP”), which is available in O&R’s service territory, helps senior citizens reduce their energy bills by making their homes more energy efficient and provides assistance to eligible customers who are converting to gas. To be eligible for this program, applicants must be 60 years of age or older, full-time County residents and have received Home Energy Assistance Program (“HEAP”).

**Con Edison Programs**

Con Edison offers programs to encourage customers to convert to natural gas heating:

- Single family, "service-adequate"<sup>1</sup> customers with 1-4 units, who convert from oil to natural gas and use a New York State-licensed contractor to install eligible high-efficiency gas heating equipment, may qualify for both:
  - A conversion rebate of \$2,000; and
  - An equipment rebate of up to \$1,000.

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<sup>1</sup> A “Service-adequate” customer is able to take service absent any additional construction on Con Edison’s part. Typically, these customers are already using natural gas for other purposes such as cooking or making hot water.

- Multifamily, "service-adequate" customers with 5-75 units, who convert from oil to natural gas and use a Participating Contractor to install eligible high-efficiency gas heating equipment, may qualify for both:
  - A conversion rebate of up to \$22,500 (\$300 per dwelling unit); and
  - An equipment rebate of up to \$15,000.

Con Edison Energy Efficiency programs are applicable to residential, Multifamily, New York City Housing Authority and Westchester County Housing Authority Low Income and Commercial and Industrial customers. The programs are prescribed incentives except for Commercial, which in addition to providing prescribed incentives, also allows for a custom approach, which allows for incentives tailored to each project based on approved program criteria. Under the programs, pre-existing gas customers, as well as oil to gas conversion customers, are eligible as long as they are not interruptible gas customers.

The incentive offers under these programs typically represent up to 70 percent of the additional equipment cost to move to high efficiency equipment, as defined in each program. Therefore, there is a capital cost that remains for the customer to pay above standard efficiency equipment.

### **O&R Programs**

O&R provides all residential customers with a \$500 rebate incentive if they convert their heating system to natural gas. Additionally, customers converting to gas service who install efficient gas furnaces or boilers are eligible for Energy Efficiency Portfolio Standard rebates from \$140 to \$700, depending on the type of heating equipment installed. These rebates are available to all residential customers who install equipment meeting the requirements of O&R's Residential Gas Efficiency Program.

For its commercial and industrial ("C&I") customer segment, O&R petitioned the Commission in April 2012 to implement a gas high efficiency equipment rebate program for both prescriptive and custom projects. With the approval of a C&I program, O&R would be better positioned to expand the gas system more efficiently for both converting customers and new customers. Rebate levels in both the residential and C&I gas programs could be increased for conversion customers whose equipment has not yet reached the end of useful life. To date, this market has been under-served in O&R's service due to the lack of a Company-run EEPS program targeting commercial and industrial gas usage. Nonetheless, the program was recently rejected by the Commission.

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 Companies' are aware of a new form of governmental funding assistance that may be available through the Governor's Regional Economic Development Council ("REDC") Funding Program. During 2011, the Governor established ten REDCs around the state to identify projects that could result in job creation and tax base enhancement. It would be worth exploring the potential of funding gas extension systems under this program, which has an extensive and detailed application process. Most funds have come in the form of tax credits, with a few direct grants provided. In addition, Empire State Development administers grants and tax credits through its Excelsior program that may be worth pursuing as a potential funding mechanism.

Funding from local economic development agencies may also be possible. In a recent expansion of the St. Lawrence Gas Company system, a contribution toward the cost of the expansion was made by the County of Franklin Industrial Development Agency.<sup>2</sup>

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<sup>2</sup> Case No. 10-G-0295 - Petition of St. Lawrence Gas Company, Inc. for an Original Certificate of Public Convenience and Necessity Under Section 68 of the PSL for the Exercise of Gas Franchises of Numerous Municipalities in the Counties of Franklin and St. Lawrence.

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

**Response:**

The design of RDMs can impact the expansion of the natural gas delivery system. The RDM should be based upon a forecast that appropriately considers the class(es) in which new customers are anticipated, and whether the new customers are expected to reflect a cross-section of customers within the class(es) or are expected to be predominantly larger or smaller than the average customer, among other factors. The timing of programs designed to incent or facilitate gas expansions should be coordinated with the timing of any changes to the current RDM that are necessary to properly reflect new or changed circumstances. For example, in any multi-year agreements, the provisions for adjustments must reflect expected expansion including the timing of when customers come on and the size of those expected customers.

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

**Combined Response:**

Neither Companies' Economic Development department has undertaken any formal study to determine the potential for job creation by customers that "switch" to natural gas. Nonetheless, it is difficult to imagine a business or industry that would not benefit from lower energy prices.

Con Edison has an economic development program for manufacturers using gas - the "Gas Manufacturing Incentive Rate" (Rider I). This program began on October 1, 2007 and is available to non-governmental customers occupying new or vacant premises or existing customers increasing their gas usage in their manufacturing process by a minimum of 25% per month for three consecutive months. The customer is also required to receive either a substantial real property tax incentive, energy rebates under the City of New York's Energy Cost Saving Program or a Comprehensive Package of incentives from New York City or Westchester County. There is also a component relating to job creation, which requires an energy audit pursuant to NYSERDA's Energy Program/Flex Tech which is based on job creation or retention and capital investment.

Currently, Con Edison has committed \$3 million for businesses eligible for this program. The sole application we have received during this program's history came in February 2013, when we received an application from a food processing company relocating from Manhattan to Queens. We are currently reviewing all documentation for compliance. If approved, the customer will be enrolled in the program under the "vacant building" provision. The benefit is for a five-year term.

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?
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.

**Combined Response:**

The Companies' believe that there are potential partnerships that could be created to facilitate expansion of the natural gas delivery system. In fact, both Companies already participate in such partnerships. Con Edison has established relationships with the real estate, plumbing/contracting community and the City of New York. O&R has an extensive network of trade alliances as well. Additionally, both Companies work with their respective municipalities.

The City of New York's Clean Heat program, and the related task force and marketing arm that accompanies it, provides a good example of a successful public/private partnership. Con Edison has been part of the Clean Heat Task Force since its inception. The task force endeavors to bring together interested stakeholders including the City, the utilities, the environmental community, property owners/managers/developers, the biodiesel community and others in order to improve air quality while remaining fuel neutral. Con Edison also works closely with the marketing arm of the Clean Heat program and meets with them regularly to provide guidance to customers looking to convert to natural gas.

We believe that a partnership developed by the public sector allows for the dissemination of information, the ability to forecast construction activities related to large-scale conversion projects and insulates the utility from appearing to favor one group/association over another.

Both Con Edison and O&R also have economic development liaisons that work with their counterparts in government to develop incentives to attract or retain businesses. Indeed, attracting large businesses to use natural gas may benefit smaller businesses and even residential customers, as the large business can act as an "anchor" customer for whom a major expansion can be cost justified as a result of the additional gas revenues such a customer will provide, allowing smaller gas users to cost effectively access new infrastructure. New and existing businesses are often provided with tax incentives to encourage job creation or retention, yet natural gas infrastructure once built is often subject to typical property tax assessments. It would be helpful if municipal entities could forego or delay the institution of property taxes on new gas infrastructure in expansion areas or areas where substantial new infrastructure must be built to satisfy growing natural gas demand.

Regarding natural gas and energy efficiency, Con Edison and O&R's EEPS gas programs are compatible with our outreach efforts regarding the conversion of customers from heavy fuel oil to natural gas, and we coordinate our efficiency efforts with our infrastructure expansion efforts.

Furthermore, in the context of natural gas expansion and environmental protection, recent initiatives by the New York State Department of Environmental Conservation (“DEC”) have led to the increased use of natural gas in power production, and, as a result, reduced emissions. In June 2010, the DEC promulgated rules described as “Reasonably Available Control Technology (RACT) For Major Facilities of NOx” (Part 227), which set stricter emission limits for most boilers. Owners of facilities subject to the rule have until July 2014 to find ways to reduce emissions, and some facility owners have converted to natural gas. Con Edison, for instance, is installing additional natural gas infrastructure to convert its 59th Street and 74th Street units to burn predominantly natural gas so as to comply with the NOx RACT requirements. The expansion of the natural gas system, therefore, can also support other environmental policy goals.

The Companies’ suggest the Commission consider increasing the coordination between natural gas and electric system in examining natural gas expansion policies in the State. Reliance on natural gas-fired generation is increasing in the State due to the attractive emissions as well as economic and operational characteristics of natural gas-powered generators. Increasingly, gas-fired generation is seen as an effective back-up to intermittent generation resources, such as wind and solar, which are an expanding part of the State’s generation fleet due to the State’s Renewable Portfolio Standard program. In many instances, natural gas fired electric generation can serve as an effective anchor customer for a natural gas system expansion. There is a synergy between the use of natural gas for heating, which peaks in the winter, and the use of natural gas for electric power generation, which peaks in the summer. Enhancing gas-electric coordination will allow that synergy to provide further benefits to all customers, and make the State more cost-competitive. The Commission can investigate the benefits of generation dual-fuel capability and automatic fuel switching rules (both of which are prominently employed in the NYC generation market) to allow customers to benefit from lower electric costs without requiring generators to sign expensive firm service delivery contracts.

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 Companies have no direct, recent experience with the environmental impact review process associated with gas franchise area expansions because the Companies have not expanded its gas franchise area since 1991, when O&R expanded its franchise to serve the Town of Washingtonville in Orange County.

We are aware of actions undertaken by other entities in the State. In assessing those actions, it appears that the State could streamline the overall assessment process by incorporating the franchise area expansion assessment into the overall Article VII process in those circumstances in which a gas transmission pipeline is a crucial part of the combined project. Under current circumstances, the gas franchise expansion is assessed under the State Environmental Quality Review Act (“SEQRA”) process when the Commission exercises its authority under Section 68 of the Public Service Law. This requires the Commission to establish its lead agency status and to evaluate an applicant-supplied environmental assessment form and supporting documentation; specific procedural steps and documented findings are required.

New transmission pipeline installations, conversely, are assessed under the provisions of Article VII of the Public Service Law. Article VII is intended to be a “one-stop shopping” process that is structured to provide every agency with jurisdiction to participate with the public in a unified proceeding. The Article VII process requires significant amount of documentation and analysis and involves different forms of public outreach than that incurred under the SEQRA process.

For projects in which the franchise expansion and the new pipeline are linked, the procedural linking would eliminate duplicative filings and procedural processes.

The Department should be aware that, in their assessment of the role of environmental assessment processes in the granting of gas supply franchise areas, there are also Federal regulations that have an impact on gas line installations. For example, the U.S. Army Corps of Engineers (Corps) Nationwide Permit (NWP) No. 12 has been constructed in a way that simplifies the permitting requirements for applicants installing and maintaining pipelines in wetlands. The general text of NWP 12 is as follows:

“This NWP authorizes the construction, maintenance, or repair of utility lines, including outfall and intake structures, and the associated excavation, backfill, or bedding for the utility lines, in all waters of the United States, provided there is no change in pre-construction contours. A “utility line” is defined as any pipe or pipeline for the transportation of any gaseous, liquid, liquescent, or slurry substance, for any purpose, and any cable, line, or wire for the transmission for any purpose of electrical energy, telephone, and telegraph messages, and radio and television communication.”

This authorization, as noted, greatly simplifies an applicant's ability to proceed with a project otherwise authorized under Article VII. The Department may wish to note, however, that in June 2012, three environmental advocacy plaintiffs filed suit in the U.S. District Court for the Western District of Oklahoma challenging the Corps' issuance of NWP 12 and the Corps' reliance on NWP 12 to authorize the Keystone Pipeline Gulf Coast Project. Part of the complaint requests that the court declare NWP 12 null and void throughout the country. At this point, the district court judge denied the plaintiffs' request for a temporary restraining order and preliminary injunction against the application of NWP 12, and the plaintiffs have now appealed that decision. Should the plaintiffs broadly prevail in this suit, the loss of flexibility associated with NWP 12 would exacerbate the permitting time associated with gas franchise expansion and pipe installation.

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:**

In Con Edison's Westchester service area, system constraints currently make gas expansion unrealistic. Con Edison has over 200,000 gas cooking and electric only customers in Northern Westchester who could potentially be served for their space and water heating needs through either a direct connection or an extension of the Company's existing infrastructure. Based on preliminary analysis, a significant amount of system reinforcement would be required to meet the space and water heating needs of these customers. Specifically, in Hawthorne, Peekskill and Yorktown, reinforcements would need to include increased larger sized distribution piping, main extensions, gate station modifications and new customer service line installations. The costs of these reinforcements would have a negative impact on rates.

O&R's undeveloped territory is largely inhospitable for excavation due to the amount of sloped terrain and surface rock. Due to the terrain, any expansion of the O&R system will typically need to follow roadways and require long main extensions. Moreover, in certain parts of the service territory, there is a lack of such roads due to the existence of State parks. Where there are facilities built up off of existing roads, depending on the distance from the roads, it may be too costly to connect service to the facilities due to the terrain.

In addition to these geological issues, there are areas of both service territories where it is uneconomic and therefore unrealistic to develop because of the lack of customer density and the distance of the population areas from the gas main. Additionally, there are areas of the service territory where there is currently insufficient customer interest to warrant gas expansion.

Some of the undeveloped areas may benefit from special considerations, such as a rural area entitlement policy. For many parts of the service territory, the O&R system would have to be extended for many miles to reach population densities, thereby rendering the 100 foot rule purposeless. Special treatment for expansion into these areas where the 100 foot rule does not account for a rural layout would allow O&R to have greater flexibility to expand the system and provide natural gas to these rural population densities.

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:**

As noted in response to earlier questions, Con Edison will shortly file a revision to its tariff to enable its planned Area Growth program in New York City. The Companies' gas system planning in other areas is focused on system reinforcement, rather than system expansion. System expansions are undertaken in response to customer requests' for gas service. Our planning process identifies projects that would be beneficial for both system reliability and supply flexibility, and if a pressure upgrade strengthens an area, then that area is also beneficially strengthened to handle load growth that may come from customer conversions from other fuels to gas. While the Companies' have no expansion projects underway at this time, both Companies continue to evaluate potential projects and engage in outreach and education with customers in an effort to identify viable projects for future expansion both within and outside our gas franchise area.

The Companies have engaged in extensive long range planning efforts related to their gas systems, as well as integrating their gas long range planning efforts into unified plans for all their businesses. These integrated long range plans are the Companies' guide to navigate the challenges of the next 20 years, and to help continue to provide safe, reliable, clean, innovative, and cost-effective energy services for a green and sustainable future. The time period examined is 20 years, which allows the Companies to assess the impact of long term trends and exploit cross-commodity opportunities to provide additional value to our customers. The goal of the plans is to provide the best value for customers, grow each company, and meet increasing demand. Key objectives of the plans are to help customers use less energy, improve our use of existing infrastructure assets, and minimize bill impacts on customers. Growth of oil-to-gas conversions is a good example of an issue that is examined extensively in the long range plans, as such conversions offer our customers a way to reduce their energy costs while providing a sustainable growth opportunity for our Companies.