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 OF THE CITY OF NEW YORK IN RESPONSE TO THE QUESTIONS POSED BY THE PUBLIC SERVICE COMMISSION

Dated: March 12, 2013

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PRELIMINARY STATEMENT

On November 30, 2012, the Public Service Commission ("PSC") commenced this proceeding to examine its policies related to the expansion of the natural gas delivery system throughout New York State.[1] As discussed in the November 30 Order, the focus of this proceeding is properly on consumers and whether the PSC's policies are properly designed to maximize public benefits.

Natural gas contributes less to climate change and creates fewer other air emissions than other fossil fuels. Natural gas is less costly than some other fuel sources, increasing its attractiveness over those fuel sources. Further, natural gas supplies are plentiful, and new investments in interstate pipelines will increase the utilities', and consumers', access to such supplies. For all of these reasons, the PSC's policies should foster the expansion of natural gas and maximize the opportunities for consumers large and small to share in the benefits of access to this fuel source.

The PSC's present policy was adopted in 1989 when the extent of the country's natural gas supplies was less clear, the gas-oil price differential was not as pronounced as it is today, and the primary consideration appeared to be preventing subsidization of new customers by existing customers.[2] While cost considerations remain relevant, other public policies should be considered in the reexamination of this issue. In particular, the PSC should take action to combat climate change and improve air quality. Reducing the emissions of carbon and particulates,

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[1] Case 12-G-0297, Examination of Policies Regarding the Expansion of Natural Gas Service, Order Instituting Proceeding and Establishing Further Procedures (issued November 30, 2012) ("November 30 Order").

[2] Case 89-G-078, Formulation of a Policy Regarding Expansion of Gas Service, Statement of Policy Regarding Rate Treatment to be Afforded to the Expansion of Gas Service into New Franchise Areas (issued December 11, 1989) ("Gas Policy Statement").

which would occur through greater reliance on natural gas, would help to achieve these important policies while simultaneously reducing financial burdens on consumers.

The City of New York ("City") applauds the PSC for instituting this proceeding and taking a fresh look at its gas policies. The City respectfully submits that the Gas Policy Statement should be updated, as discussed as the Technical Conference and in these comments. To be clear, the City is not proposing that existing customers subsidize new gas customers. However, there are opportunities to relax and provide more flexibility in the regulations and rules governing gas extensions that would facilitate conversions to gas service and reduce the associated costs imposed on new consumers. As long as the revenues from the new customers exceed the costs to connect and serve them, there would no harm to existing customers. Just the opposite, the increase in the customer base should lead to lower gas rates for all customers.

As discussed as the Technical Conference, the City has developed and implemented its Clean Heat program to promote, foster, and support conversions from heavy heating oil to natural gas and other cleaner fuels throughout New York City in order to reduce air pollution and improve public health. In doing so, the City has worked closely with Consolidated Edison Company of New York, Inc. ("Con Edison") and National Grid and is appreciative of those utilities' cooperation and efforts to make the Program a success. While it may not be possible to completely duplicate this Program throughout the State, the Program could serve as a model for use by other municipalities to assist with gas conversions. The City would be happy to share its experiences and lesson learned with the PSC and Department Staff if doing so would be helpful as the PSC revisits the Gas Policy Statement.

In accordance with the November 30 Order and the discussions at the Technical Conference, the City provides the following responses to the questions posed in the attachment

to the November 30 Order. As intended when the PSC commenced this proceeding, and as discussed during the Technical Conference and working group meetings, the City understands that this will be an iterative process. Therefore, the City would welcome the opportunity to discuss its comments with the PSC and Department Staff, and it is willing to expand on its responses and/or provide additional information as needed.

RESPONSES TO THE PSC QUESTIONS

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?

NYC Response: The City agrees with the view expressed by The Brooklyn Union Gas Company in 1989 that "investments in facilities that will provide service for fifty years cannot be economically evaluated on the basis of a short-term analysis." Gas Policy Statement at p. 6. For many years, the relative costs of natural gas and other fuel sources and the general lack of interest in conversions to natural gas masked the barrier created by this short-term analysis. Now, however, the substantial disparity in the cost of natural gas compared to other fuel sources, and the increasing reliance on natural gas compared to other fossil fuels to combat climate change and improve air quality, have brought the problem with the revenue test into focus.

Indeed, the discussion in the PSC's Instituting Order in this proceeding acknowledges the changing environment and need to reconsider the policies and rules related to gas service expansions.

Not only is the revenue test overly restrictive, there may be a significant difference in how the utilities interpret and apply the PSC's regulations and their corresponding tariffs. While the Instituting Order noted that the PSC's regulations were intended to provide some flexibility in their application (presumably with the intent to benefit customers), uncertainty about this flexibility, and in some cases overly restrictive interpretations of the rules, have dampened conversion uptake. There remain substantial improvement opportunities and for that reason the City expects to raise a number of such issues, including tariff-specific proposals in the pending Con Edison gas rate case.[3]

The PSC need only examine the key underlying facts to understand the need for material changes to its current rules and policies. Before the City's Clean Heat gas conversion program commenced, approximately 10,000 buildings in New York City used #6 or #4 fuel oil for heating purposes. In fact, New York City had the highest concentration of buildings using heavy fuel oil in the entire world, and these buildings were responsible for more fine particulate matter pollution than all cars and trucks on the road. In 2011, the City passed regulations that require buildings that use #6 fuel oil to convert to a cleaner fuel, such as natural

[3] Case 13-G-0031, Consolidated Edison Company of New York, Inc. – Gas Rates.

gas, by 2015. The City developed the NYC Clean Heat program to remove market barriers and accelerate adoption of the cleanest fuels. Achieving the NYC Clean Heat program goal of reducing fine particulate matter pollution from heavy heating oil use in buildings by 50% by 2014 will lead to over 120 lives saved and hundreds of ER and hospital visits prevented each year. Many of these buildings are located in Manhattan and the Bronx, and they include some of the most prominent business and residential addresses in the City, as well as the lowest-income neighborhoods. When the price disparity between gas and fuel oil began to grow, these buildings became prime targets for Con Edison's business development unit. . In response, Con Edison created a dedicated gas customer conversion group that brought together internal disciplines of planning, engineering, energy services, operations and marketing, and also significantly improved customer interaction. The Company also became more flexible in its approach by accepting clustering of new customers within neighborhoods and examining new infrastructure costs on a total basis (*i.e.*, an area growth strategy), rather than on a customer-by-customer basis. However, the City has been informed by a number of prospective gas customers that in practice, certain of Con Edison's policies and procedures have raised issues with parties' intended migration to natural gas.

In most parts of Manhattan, gas mains exist immediately adjacent to prospective customers' buildings. However, the mains may not be

adequate to handle the additional load, or may have insufficient pressure to support new customers. In other instances, the mains are sufficient, but the gas supply to the neighborhood at large is inadequate. In yet other cases, the problem is even further upstream. Too often, however, Con Edison has reportedly sought to impose the costs for expanding its gas system solely on prospective new customers.

The City submits that new customers should not solely bear the costs of upstream expansions that will benefit the system in general, even if the immediate need for the improvement occurs because of specific requests for gas service. That is, if the installation of a gas regulator station will reinforce or improve Con Edison's ability to serve all customers downstream from that station, all or a portion of the cost should be socialized in the same manner as other capital investments.

The utility's practices also raise a question regarding its capital investment plans in general. If so many parts of its gas system are at or so near capacity that major new infrastructure is needed to add one or more new customers, one must ask whether Con Edison has in every instance been properly planning for its future needs. This broader issue is outside of this proceeding, but it should not influence the PSC's decision in this proceeding on whether to modify the rules for expanding access to natural gas.

Turning to its recommendations, the City offers no comment in the issue of expansion of the utilities' gas franchise territories. Virtually all of

New York City is within the franchise territory of Con Edison or National Grid. As to the rules and regulations for adding new customers, the City offers the following recommendations:

1. The rules pertaining to the footages of mains and service lines should be modified to make 100 feet of each line an explicit minimum requirement, and to expressly require utilities to enlarge the footages provided at no cost where the economics of the new customer justify the additional cost. As discussed at the technical conference, some utilities already engage in this practice. So long as the economics justify the costs, there should be no concern about subsidization of the new customers. Furthermore, in the event of multiple buildings converting along a single main line, the entitlement of 100 feet of free line for each new firm gas customer should accrue on an additive basis along the entire line, which will help to make the economics work for connecting all customers along that line.
2. The PSC should make clear that any upstream improvements that will provide benefits to gas customers generally should be included in rate base in the same manner as any other capital investment, even if the immediate purpose of the improvement is to allow one or more new customers to be added.
3. The PSC should require every utility to factor new business potential into their capital plans. When mains are replaced or added, they should be sized to accommodate projected future needs as well as

current requirements. For example, when the utility replaces old gas mains, it should consider the number of existing customers served as well as the number of buildings and prospective customers that could be served by the main, rather than simply installing mains sized only to serve the present load. While there would be some incremental cost involved, it would relate primarily to the cost of the larger pipe. The opportunities then available to sign up new customers presumably would justify the incremental cost. This approach would also create efficiencies by eliminating duplicate construction costs.

4. The revenue test for avoiding the new construction surcharge should be modified. The mains and appurtenant facilities have long service lives, but the revenue test is based on recovery of at least 40% of the capital cost in each of two consecutive years. The utilities do not recover such a substantial portion of their costs over a similar period, and it is inappropriate to hold prospective new customers to such a high threshold. The City would prefer that the test require annual revenues to equal or exceed 10% of the capital cost, but even a 20% requirement would be a significant improvement. Whether a ten-year or five-year test is used, both demonstrate that the investment is economically justified. More importantly, the lower threshold would considerably ease the sometimes financially onerous burdens imposed on new customers, and facilitate achievement of the

important public policy goals of improving air quality and combatting climate change.

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.

NYC Response: They can be, but they are not aligned at this time. As discussed above, public policies have changed over time, but the Gas Policy Statement has not. Adding flexibility to the expansion policy, and relaxing some of its revenue tests, can foster increased use of natural gas without creating subsidies between existing and new customers. Given known and projected reserves of domestic natural gas, information that has changed dramatically since 1989, the availability of natural gas should not be a limiting or controlling factor. Similarly, new pipelines are being constructed, and others have been proposed, to increase the connections between the production areas and New York City and New York State. Therefore, upstream supply also should not be a limiting or controlling factor.

For customers and the State, the economic interests are clearly aligned. Reducing fuel costs benefits individuals and businesses, and those benefits translate to increased prosperity for the State. For those customers who are mostly or only concerned about cost, the State's policy considerations may well be irrelevant. However, there is a growing interest among the populace at large and business community to take steps

to improve the environment. Switching from heavy fuel oil to natural gas helps to achieve these goals and is another example of alignment between consumer and State interests.

Customer and shareholder interests may or may not be aligned. However, adoption of the recommendations discussed above should help to align the utilities' actions with the best interests of existing and prospective customers.

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.

NYC Response: The City is not aware of any incentives that induce the utilities to expand their gas businesses or infrastructure. Their receipt of revenues and a return of and on their capital investments do not appear to be adequate, standing alone, for utilities to necessarily seek to add customers and expand their distribution systems.

Utilities have obligations to serve their customers and to provide service to individuals and businesses in their service territories. The PSC has relied on performance-based ratemaking for almost 20 years, and it is doubtful that this approach has resulted in better service and lower rates for customers. Rather than giving shareholders incentives to satisfy their obligations, perhaps a better approach would be for the PSC to monitor and track the number of service requests each utility receives, the time it takes the utilities to process those requests, the costs involved in adding

new customers, and whether some or all of those costs could have been avoided through better planning and infrastructure investments. Then, because the utilities' rates of return are premised, at least in part, on the provision of adequate levels of service, if deficiencies are found, the PSC could adjust the utilities' earnings accordingly. In other words, instead of an incentive mechanism where the utilities are at no risk if they do nothing and have only upside potential, the PSC should adopt a structure that requires responsiveness and imposes consequences for inaction. Such a process would be not dissimilar to customer service metrics employed in other areas of utility regulation. The details of such a structure are best left to individual rate cases to be tailored to each utility's circumstances.

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.

NYC Response: The current revenue test used to determine whether a connection can be economically justified creates an overly restrictive barrier to conversions. The test is based on the revenues realized over a very short period of time, whereas the new customer is likely to remain a gas customer for many years. If the revenues over a longer period, such as five to ten years, are used, the economics can change (and improve) dramatically.

The process to become a gas customer can also be a barrier to conversions. Navigating the steps involved and understanding the

associated costs and customer responsibilities can be daunting. In New York City, the City has worked with building owners and their trade organizations, financial institutions, equipment suppliers, contractors and their trade organizations, utilities, and others to provide a one-stop resource for consumers. Incentives and low-cost financing, and well as technical assistance, are available to consumers, and the Clean Heat program administrator also helps consumers work through the utilities' requirements and processes.

This clearinghouse approach has in practice worked well, and it demonstrates the need for a simple, streamlined process. Moreover, the City's experience has revealed that reducing and developing a plan for up-front costs is essential; many customers are far more focused on those immediate outlays than on the long-term savings and benefits of converting to natural gas.

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.

NYC Response: Information conveyed to the City by building representatives suggests that in the past, the utilities have too often placed the burden on prospective new customers to identify, contact, and sign up others in their areas in order to lower the individual cost of system upgrades. However, since the commencement of the City's Clean Heat program, the utilities have accelerated their efforts to target heavy oil burning buildings for conversion to natural gas and largely tailored their efforts to coincide with the City's outreach and education efforts.

The City conducted extensive analysis of the buildings using #4 and #6 fuel oil, including the potential revenues and economics of gas conversions. This information identified many attractive, revenue-generating potential customers for the utilities, and it was shared with Con Edison and National Grid. Each utility then mapped these customers in relation to their distribution systems and identified parts of their respective service territories where buildings could connect to the gas system with little or no cost. In the case of Con Edison, this list was shared with all registered energy service companies to help accelerate market development and also to create a level playing field. More recently, Con Edison has posted on its website maps of its area growth strategy and detailed descriptions for how buildings in growth areas can obtain gas system connection for low or no cost. Nevertheless, inasmuch as they are in the business of selling gas, the City believes that the utilities could be

more active in soliciting new customers, both inside areas designated for area growth and Citywide.

In 2011, Con Edison established a gas customer conversion group that has streamlined communications with customers and aided in marketing and customer acquisition. This group regularly communicates with the NYC Clean Heat program and its partners, and has led the development of the area growth strategy, but there remains an opportunity for the utility to do more.

Regardless of the structure of the outreach and education programs, to be effective they must be coupled with clearer information on when the prospective customers could be connected to the gas system. In the Clean Heat program, the City experienced problems early on because Con Edison could not provide specific dates or time frames for connecting new customers. While Con Edison's abilities have improved, in many cases the conversion time frames provided are years into the future. This can cause customer commitments to quickly evaporate, or never materialize. A more aggressive build-out strategy is needed to keep up with demand from the marketplace.

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.

NYC Response: See response to (5), above.

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?

NYC Response: While widespread expansion of the gas delivery system is desirable, the City recognizes that in some limited areas, it cannot be economically justified. In other areas, physical limitations prevent or restrict gas conversions. The City has not advocated for existing customers to subsidize new customers, but the City believes that greater flexibility is needed in determining the economics of gas conversions.

Presently, the PSC's revenue test looks out over a very short time period, but the new customer will almost certainly remain a gas customer for many, many years. Therefore, while some projects may not be economically justified when viewed over a five-year period, they would be well justified if viewed over a 10- or 15-year period. If, over time, the revenues from the new customers exceed the costs incurred to provide service to them, there would be no subsidy from existing customers if the costs of the gas expansion are included in rate base and spread equitably among all customers.

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?

NYC Response: The City has been working constructively with both Con Edison and National Grid to develop a different approach to line extensions rather than simply looking at each individual prospective customer in isolation. The approach involves identifying an area of the City, typically a few blocks in size, and developing a cost estimate to provide gas service to the entire area. In general, this approach is beneficial because it can reduce the costs otherwise imposed on individual customers.

Con Edison has successfully piloted this approach in a number of neighborhoods, beginning with Morningside Heights in Northern Manhattan, where Columbia University sought to convert over 80 of its residential properties from heavy oil to natural gas. This enabled Con Edison to undertake area-wide upgrades with little or no cost to customers. This pilot has led to area-growth efforts in other parts of the City.

The City discussed this approach during the technical conference in this proceeding. If the PSC or DPS Staff would like to discuss this approach in greater detail, or have any questions regarding it, the City would be happy to provide information or answer specific questions.

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.

NYC Response: The City is aware that in certain circumstances, Con Edison and National Grid have provided more than 100 feet of gas main or service line to a customer at no charge, as a result of the customer passing a revenue test. However, feedback to the City from real estate organizations, property managers, and building owners suggests that the revenue test is not uniformly applied in this circumstance and is not well understood by the marketplace**.** As discussed above, within New York City, the larger costs are typically for system upgrades needed to serve new customers. The City's perspective is that the 100-foot lengths should be explicitly recognized as minimums, not maximums, and where the revenues to be realized over time from a new customer justify a greater level of investment by the utility to connect the customer, it should make that investment. At the same time, the City is not suggesting that existing customers subsidize the cost to connect new customers.

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?

NYC Response: The City is not aware of any utility gas conversion program specifically focused on low income customers. Within New York City, low income

customers tend to live in multi-family housing units, and the costs of conversion can create barriers to conversion – surcharging the tenants may not be possible, and the rental income may not be sufficient to cover the cost for the building owner. The City is continuing to grapple with this issue. The availability of low-cost and long-term financing helps to some extent, but in many cases the costs to connect to the gas system remain too large for customers of modest means. To the extent that additional incentives are made available through NYSERDA or RGGI, they should be directed to assist low and moderate-income buildings.

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)?

NYC Response: The City encourages the PSC to examine ways to reduce the customer costs of expansions of the natural gas delivery system, such as through a relaxation of the revenue test. While reductions in new customer costs would mean increased costs borne by ratepayers generally (which would include the new costs), the infrastructure investment would be recovered over decades through rates rather than over a few years via direct customer payments. Provided that the revenues from the new customers over time exceed the cost of the expansion, there would not be any subsidy of new customers by existing customers, and the increased customer base could result in reductions in charges to individual customers.

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?

NYC Response: It can be very difficult to identify, understand, and participate in NYSERDA's gas efficiency programs. In some cases, NYSERDA programs have evolved in a manner that has engendered customer confusion. The former Multifamily Carbon Emissions Program ("MCERP"), provided robust incentives for conversions to firm gas service, and various declining incentives for interruptible natural gas, #2 fuel oil, and biofuels. That program was eliminated, and consideration should be given to its redeployment in order to advance the goals referenced in the Instituting Order.

Similarly, the principal multifamily program operated by NYSERDA, the Multifamily Performance Program, ("MPP"), has undergone repeated changes, including a suspension of the entire program for the better part of a year, and a series of diminishing incentives for various elements of the MPP. As the City has noted previously, such a pattern of repeated program changes can only induce confusion and limit the adoption of the program, thereby compromising its effectiveness.

The utility programs in contrast are generally easier to understand, but customers would substantially benefit if they could go to one location

and quickly and easily learn about and apply for all available incentives. The City has advocated for a "one-stop" approach for energy efficiency programs for years. For gas conversions under the Clean Heat program, the City worked with the Environmental Defense Fund and ICF International to establish a program manager and a clearinghouse for all types of information (*e.g.*, utility requirements, financing, construction and contractors, code requirements, incentives).

There are also potential coordination efforts that should be undertaken between the utility and NYSERDA programs to better integrate opportunities. On example is the coordination between Con Edison's Commercial and Industrial Energy Efficiency Program with corresponding NYSERDA programs.

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

NYC Response: To the extent RDMs prevent utilities from receiving any of the short-term benefits of adding new customers, they can adversely impact gas infrastructure expansions. Some adjustments are needed to RDMs to ensure that utilities have the appropriate incentives to expand their gas businesses in economically reasonable ways.

<u>Economic Development</u>

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?

NYC Response: The City has no specific data that would be responsive to this question but notes generally that high utility costs are often cited in some quarters as a reason for businesses leaving the State. Providing businesses access to markedly lower-cost natural gas should help to reverse that trend.

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

NYC Response: Because of the cost differential between natural gas and other fuel types, and because natural gas prices and supplies are projected to remain relatively stable for many years, many businesses and individuals could benefit from an expanded natural gas delivery system. From an industrial perspective, if a business presently uses coal, fuel oil, or electricity for steam production, heating purposes, or production process applications, conversion to natural gas may lower its costs and help induce it to remain or expand in New York.

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?

NYC Response: The City has no interest in becoming a gas utility, or entering into a formal partnership with either Con Edison or National Grid regarding the provision of gas delivery service. However, it is generally supportive of public-private partnerships where such arrangements make economic sense and can lower costs for consumers and believes that the Clean Heat program demonstrates the value of these informal partnerships. Here, it is not clear that the introduction of private partners would result in lower gas rates, or that such arrangements are needed to facilitate expansion of the utilities' gas distribution systems.

If by "public sector" the Commission means municipalities, the role of the public sector should be to support franchise and infrastructure expansions by utilities. If "public sector" means public authorities, the City notes that some authorities may be able to finance infrastructure expansions at cheaper rates than privately-owned utilities. Relationships between public authorities and the utilities should be evaluated to determine whether and to what extent savings may inure to customers. Under any structure, though, there is a need for clarity as to responsibility for maintenance of all gas plant and responding to gas emergencies.

The City offers no comment on the need for, or propriety of municipal gas companies that would function similarly to municipal electric companies.

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?

NYC Response: The City's Clean Heat program facilitates access to loans and other forms of financing for heating fuel conversions, in partnership with the NYC Energy Efficiency Corporation ("NYCEEC"). NYCEEC has developed financial arrangements with several large lending institutions, energy suppliers, and housing portfolio managers to develop and deploy this financing and is beginning to see a growth in uptake.

Additionally, Con Edison has had an oil-to-gas conversion incentive program in place for a number of years. That incentive is not widely available to customers switching because of the change in law in New York City. This policy should be reexamined given the considerable pollution reduction and public health benefits associated with conversions from heavy oil to natural gas. There are also opportunities for greater coordination between utility gas conversion efforts and energy efficiency programs funded through EEPS. It is worth considering the establishment of benchmarks for this type of coordination.

As noted elsewhere herein, opportunities exist to leverage NYSERDA funding for gas conversions, particularly for low and moderate income buildings. Additionally, although not widely used for this purpose, RGGI funds should also be deployed to support gas

conversions. The purpose of RGGI is to reduce our carbon footprint, and converting from heavy fuel oil to gas will do so. The City recognizes the tension of using funds collected from electric and gas customers to support adding new gas customers, but the underlying core purpose of the NYSERDA programs includes serving and benefitting the public at large, and improving the environment in which we live. There can be no legitimate dispute that converting to natural gas reduces harmful air emissions and improves air quality and the health of individuals (particularly children) living near emissions sources. Therefore, deploying a portion of the NYSERDA funds to foster gas conversions is an appropriate use of those funds.

The possibility also exists that NYSERDA could duplicate or sponsor in other parts of the State the efforts of the City in creating a clearinghouse for consumers of information related to conversions. Working with its many partners, NYSERDA also may be able to secure similar financing commitments and lender participation as the City secured for the Clean Heat program. To the extent the PSC is interested in pursuing this concept, the City would be willing to share its experiences and lessons learned with the PSC and NYSERDA.

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.

NYC Response: The short answer to the question is yes, such opportunities do exist. More generally, gas expansion projects provide a synergistic opportunity to achieve multiple beneficial outcomes. Expansion of the gas delivery system is tied to improvements or replacements of customer equipment, and, in most cases, results in supplanting the use of more environmentally detrimental fuel sources.

The City has worked with environmental groups, the utilities, banks, community groups, building trade groups, suppliers, and other organizations to provide information to the public on the benefits of conversions to natural gas, sign up new customers, obtain low-cost financing for customer-side improvements, develop new approaches on the utility side to reduce the costs imposed on the new customers (*e.g.*, switching from an individual-by-individual approach to an area-wide approach), and secure favorable pricing from plumbing contractors and equipment suppliers (*e.g.*, trading per unit profits for volume purchases and reducing mobilization and demobilization costs by using the same contractor to perform the installations in multiple buildings on the same block).

Statewide, there can be substantial environmental benefits associated with gas conversions if customers formerly used heavy fuel oil, coal, wood, or other fuels that have high carbon, particulate, or other pollutant emissions. These benefits can include reductions in the production of greenhouse gas emissions and improvements in the

respiratory health of individuals, especially children. Heavy fuel oil and wood have comparatively high particulate emissions and the connection between particulate emissions and asthma and other respiratory problems is well documented, as concerns about particulate emissions and their health impacts were extensively litigated in the former Article X generation siting projects in New York City. Reduction or elimination of those fuels will have immediate and direct benefits for the individuals in the surrounding area. A discussion of these benefits can be found in the City's Clean Heat Report, previously provided to the PSC.

Energy efficiency opportunities also exist in that the conversions often involve the replacement of older furnaces and boilers with new equipment, the efficiency of which can be significantly greater than the former equipment. Approximately 80% of buildings that use #6 fuel oil and are required to convert to a cleaner fuel must also comply with the City's Greener Greater Buildings Plan, which requires public reporting on energy performance and cost effective energy efficiency measures. Furthermore, research conducted by NYSERDA has shown that the type of buildings that make up the majority of #6 fuel oil users typically have the greatest opportunity for achieving energy savings through efficiency measures. In many cases, pairing a fuel conversion project with energy efficiency measures can yield favorable economics and make projects financeable. The City's Clean Heat program seeks to capitalize on this opportunity, primarily through its collaboration with NYCEEC to

facilitate access to financing. Properly designed incentives from the utilities and/or NYSERDA can help defray the cost of purchasing the most efficient equipment available. Indeed, because the up-front customer cost can be a significant impediment to conversions, it is critical that incentives remain available to provide inducements to convert.

Economic development opportunities include additional work for plumbers, equipment manufacturers and distributors, and the contractors hired by the utilities to install the new infrastructure. The City believes that for every dollar invested to upgrade natural gas distribution infrastructure, more than a dollar will be spent by building owners to undertake construction work associated with conversions from heavy oil to natural gas. Commercially, utility costs can comprise a large and growing segment of a company's costs. Increased access to natural gas could cause companies to expand their operations, potentially increasing employment opportunities and local tax bases.

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?

NYC Response: The City has no comment on this issue. The extension of gas franchise areas is not a concern within New York City.

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?

NYC Response: The City believes that the entirety of New York City should ultimately be served by adequate natural gas distribution infrastructure. The issues preventing a full build-out by Con Edison and National Grid relate primarily to cost and gas supply capacity. With Spectra and other new pipelines planned to serve the metropolitan area in the near term, bulk gas supply should not be a continuing concern. The City recognizes that there is a substantial cost to expanding the utilities' gas delivery systems, but that cost should be balanced against the revenues generated by the expansion over time (*i.e.*, a longer time period than the 2 ½ years set forth in the Gas Policy Statement), as well as the recognized benefits of using natural gas instead of heavy fuel oil or other higher polluting fuel sources.

The City offers no comments on the expansion of gas delivery service in other parts of the State.

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.

NYC Response: Implementation of the City's Clean Heat program will require robust expansion of Con Edison's gas delivery system, as well as expansion of National Grid's gas delivery system. The utilities' planning approach must accommodate the size and density of the potential increase in load,

and the City believes that they have begun to make such changes. Presumably, Con Edison and National Grid will discuss the manner in which they are planning for the influx of new gas customers because of this program.

Respectfully submitted,

Dated: March 12, 2013
New York, New York

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