STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on November 27, 2012

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
James L. Larocca
Gregg C. Sayre

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

ORDER INSTITUTING PROCEEDING
AND ESTABLISHING FURTHER PROCEDURES

(Issued November 30, 2012)

BY THE COMMISSION:

INTRODUCTION

Natural gas is cleaner than other fossil fuels used for home heating and under current market conditions costs a third as much. Moreover, New York State is well-located geographically to take advantage of existing and newly developed natural gas supplies located outside our State but which, when competitively-priced, are available to supply customers within the State. New York's location relatively close to these new sources of supply could provide the State a competitive advantage in attracting and retaining employers concerned about costs of, and access to, a reliable source of energy. In addition, consumers may enjoy significant savings in household fuel expenses which in turn could benefit the State's economy to the extent that households redeploy those savings. According to

data provided to the Department of Public Service Staff by the State's local natural gas distribution utilities, there are 550,000 households in New York located within 100 feet of an existing gas distribution line that do not heat with natural gas. An additional 580,000 households (approximately) exist beyond 100 feet from an existing gas distribution line but nonetheless within an existing natural gas utility franchise. Stated differently, 33% out of the roughly 3 million New York households that currently heat with fuels other than natural gas,[1] live within an existing natural gas franchise area. This potential to expand the natural gas system customer base, and, as described in more detail below, the likely benefits associated with conversion to natural gas from other fossil fuels, should be explored to ensure that Commission and utility policies and practices are encouraging expansion and maintenance of the natural gas distribution system in a way that maximizes public benefit. Therefore, by this order we institute a proceeding to examine our policies concerning the use of natural gas and consider whether we should take steps to foster its use through expansion of the natural gas delivery system or otherwise. In order to facilitate the review and, as described in more detail below, we will direct Staff to convene a technical conference on the matter.

BENEFITS OF NATURAL GAS

There are many ways the use of natural gas as an alternative to other fossil fuels could provide benefits to New Yorkers. The technical conference and other aspects of the record to be developed by Department Staff will seek to create a more complete understanding of such benefits (and associated challenges) including the categories described below.

[1] According to U.S. Census data.

Price

As of October 30, 2012, the spot market price of natural gas was $3.42 per dekatherm (Dt)[2] and, on an energy equivalent basis, the price of No. 2 home heating oil, the most common alternative to natural gas, was $22.28.[3] Current projections from the federal Energy Information Administration (EIA) indicate that this relationship is expected to continue for a considerable period.[4]

Residential customers who are able to convert to natural gas from No. 2 oil, propane, kerosene or electricity can significantly lower their fuel costs.[5] Under current price conditions, the typical homeowner who converts from No. 2 oil to natural gas could save about $1,300 per year, although it could be more if they convert to a high efficiency furnace or boiler. Assuming approximate installation costs for a new high efficiency heating system of between $3,000 to $5,000, a homeowner's payback period could be less than four years.[6]

---

[2] One Dt is equivalent to one million British thermal units (Btus).

[3] Platts Gas Daily, Monday, May 14, 2012.

[4] U.S. Energy Information Administration, Annual Energy Outlook 2011, Table 3, at http://www.eia.gov/forecasts/aeo/pdf/tbla3.pdf.

[5] It should be noted that conversion requires replacement of heating equipment which can also be a significant cost to a homeowner. It may also require installation of ductwork or piping if the home is using electricity for heating, or if it is upgrading to a higher efficiency condensing boiler.

[6] http://www.costowl.com/home-improvement/hvac-furnace-replacement-cost.html. It should be noted that additional costs associated with the installation of gas supply infrastructure may be incurred if the customer is not located sufficiently proximate to the existing system.

Emissions

Natural gas is a cleaner fuel than No. 2 oil, kerosene or propane in terms of emissions of particulate matter, nitrous oxide, sulfur dioxide, and carbon dioxide. It is also significantly cleaner than coal. Per unit of energy, natural gas emits approximately 28% less carbon dioxide than petroleum derived fuels and has significantly lower levels of nitrogen oxides (NO_x), sulfur dioxide (SO_2) and particulate matter.[7] Use of natural gas that displaces oil or coal consumption will result in lower overall emissions.

Extending Low Income Programs

Expanded availability of natural gas also has the potential to help low-income programs and customers. While many of the State's low-income households heat with natural gas, many others heat with other fuels, including oil, kerosene, propane, wood or coal. Lowering fuel costs incurred by low-income customers through conversion to natural gas could provide a significant and direct benefit to these customers. It would also increase the impact of scarce assistance resources available to the low-income customer such as the Home Energy Assistance Program (HEAP).

Promoting Economic Development

Expanding the availability of natural gas also is likely to have important implications for economic development and the job market within New York. The ready availability of a lower cost energy source will enhance the viability of existing businesses as well as enhance the State's ability to attract new

[7] Energy Information Administration, Natural Gas 1998 – Issues and Trends, April 1999, at http://www.eia.gov/pub/oil_gas/natural_gas/analysis_publications/natural_gas_1998_issues_trends/pdf/it98.pdf.

businesses and industries. Moreover, expansion of the natural gas system itself will likely create and/or retain in-state construction jobs.

Further, an expanded customer base will permit gas delivery utilities to spread fixed costs to a larger number of customers. This, in turn, will have a dampening effect on future rate increases for existing customers of those utilities. Expanding natural gas infrastructure could also benefit utility shareholders by increasing the equity investment from which they are entitled to earn a return.

Finally, expansion of the natural gas system complements the economic development efforts encompassed by Governor Cuomo's recently released New York Energy Highway "Blueprint." [8] The Blueprint states that "accelerating utility capital and operation and maintenance spending on the State's ... natural gas infrastructure will result in enhanced reliability and safety for utility customers while generating substantial economic development benefits for the State's overall economy."[9]

Enhancing Reliability

There are areas of the state that are supplied by a single natural gas supply line. Expansion and reinforcement of the system in these areas could provide reliability benefits by creating gas flows from more than one source or direction. Increased reliability would benefit existing customers as well as new customers. For example, increased reliability may permit existing interruptible natural gas customers that desire firm service to convert to it, reducing the need of dual fueled

[8] Governor Andrew M. Cuomo, New York Energy Highway, Blueprint, available at http://www.nyenergyhighway.com/Content/pdf/Blueprint_FINAL.pdf

[9] Id. at 14.

customers to burn oil as a back-up fuel. Similarly, a reliable source of uninterruptable natural gas would likely increase a locality's ability to attract new businesses and other employers.

COMMISSION POLICIES

The Commission has policies on the extension of service lines within existing natural gas franchises and expansion of service into new franchise or other unserved areas. Extensions of lines within existing franchises are governed by 16 NYCRR §230 of the Commission's regulations. Section 230.2 requires a gas utility to provide an applicant with a minimum length of main and service line extensions and appurtenant facilities at no cost to the applicants.[10] The regulations permit utilities to provide longer extensions and additional facilities without charge if it is cost-justified.[11] If utilities install more than 100 feet of main and service line extensions to hook-up a customer or customers, they are authorized to assess surcharges on the new customer or customers to recover the costs associated with the equipment beyond 100 feet over a period of up to 10 years from the commencement of service.

Expansion into new natural gas franchise territories is covered by a Commission Policy Statement issued over 20 years ago (Gas Expansion Policy Statement).[12] The Gas Expansion Policy Statement provides normal rate treatment for new franchise

[10] 16 NYCRR 230.2(c), (d) and (e)(commonly referred to as the '100 foot rule').

[11] 16 NYCRR 230.2(f).

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

projects forecasted to earn a rate of return at least equal to the utility's Commission-allowed rate over the first five years of project development. If an expansion project is forecasted to earn less than the full allowed rate of return by the fifth year, revenue levels will be imputed and contributions of customers or municipalities toward capital costs will be recognized to reduce revenue deficiencies. If a revenue deficiency is forecast, utilities will be authorized to assess surcharges on all sales in the new franchise area for up to five years from the commencement of service.

Both the main and service extension rules and the Policy Statement provide some flexibility concerning measures used to demonstrate the feasibility of a particular expansion project. Only rarely, however, have utilities sought to employ such flexibility. Moreover, the vast majority of expansion proposals do not seek to leverage other potential assets including public-private partnerships, economic development and energy efficiency resources to manage or improve the economics and/or other potential benefits of an expansion project.

Some areas of the State that are not currently franchised by natural gas utilities feature remote, rocky or mountainous terrain which make extension of the existing natural gas distribution system difficult and extremely expensive. In those areas, it may make sense to site a compressed natural gas (CNG) or liquefied natural gas (LNG) storage facility, which could be used to supply a local distribution system. This method is already employed by some communities in New England. Current New York statutes and regulation, however, do not appear to allow for the siting of LNG storage facilities within the state for use in this way. This proceeding shall also consider, and develop an estimate of, the extent to which technologies such as CNG or LNG could be used to provide natural gas service

in these hard to serve communities.[13] Barriers for projects such as these should also be identified.

Further, currently there are projects that are recently completed, are under construction, or are being considered under Article VII that involve building new pipeline in New York State. While these projects may not be intended to provide or support distribution service in appropriate cases, they could do so without compromising their primary purpose, which is to deliver gas to the existing network of interstate pipelines. Developers who are considering filing applications for natural gas transmission projects under Article VII of the Public Service Law could be required to examine routes that favor areas that do not currently have natural gas distribution service over those that do, in an effort to achieve the most cost-effective solution to expansion of the natural gas system.

PROSPECTIVE CONSIDERATIONS

Given the significant changes in the natural gas industry, and the potential economic and environmental advantages of natural gas, it is appropriate to revisit the issues related to the natural gas system. Concerns remain regarding subsidization of expansions by existing ratepayers, particularly as such benefits shareholders. Given the potential advantages available from a well-planned expansion of the natural gas delivery system, however, Staff, the Commission and indeed all stakeholders will benefit from a better understanding of the existing system and policies, as well as the benefits and costs of expansion, improvement or other changes.

Toward that end, we institute this proceeding to review our policies regarding expansion of the natural gas

[13] Please note that, it is likely that the siting of LNG storage facilities in New York would involve the jurisdiction of state agencies other than the Department of Public Service.

delivery system. In order to facilitate the review, we direct Staff to convene a technical conference for interested parties. The aim of the conference will be to provide stakeholders with an overview of the existing natural gas system, the manner in which existing Commission and utility policies are implemented, the role Commission and utility policies play in maintaining, improving and expanding the system, and how Commission policies may be modified to enhance the potential benefits to New Yorkers from an expanded and/or more reliable natural gas system. Interested parties are also invited to submit comments in response to the 21 questions listed in the attached Appendix. Upon completion of the Technical Conference, Staff will provide a report to the Commission along with any recommendations it may develop.

The natural gas utilities will make presentations at the technical conference including overviews of their existing systems and policies; current plans for improving or expanding their systems; and responses to the issues and questions listed in the attached Appendix. Other parties will have an opportunity to seek clarification or further information from the presenters following the presentations.[14]

As indicated above, interested parties are also invited to submit written comments in response to the 21 questions listed below. Any comments shall be submitted within 45 days of the conclusion of the technical conference.

[14] Other parties interested in making a presentation at the technical conference, should contact Cindy McCarran at cynthia.mccarran@dps.ny.gov at least seven days prior to the to-be-announced date of the technical conference for consideration and planning purposes. Interested parties should be prepared to submit a written presentation proposal. Individuals or entities with questions concerning presentations or the technical conference in general should contact Ms. McCarran via email or by calling (518) 486-1645.

Interested parties should submit comments electronically by e-filing through the Department's Document Matter and Management System (DMM)[15] or to the Secretary at secretary@dps.ny.gov. Those unable to submit electronically may mail or deliver them to Hon. Jaclyn A. Billing, Secretary, New York State Public Service Commission, Three Empire State Plaza, Albany, New York 12223-1350. All comments shall be submitted by January 24, 2013.

Those interested in being a party to the proceeding should be aware that the New York State Department of Public Service (Department) has developed new ways to request party status that are available on the Department's web page. See, Case 09-M-0544, Commission Memorandum and Resolution Adopting Amendments to 16 NYCRR, issued February 22, 2011; particularly newly revised 16 NYCRR §3.2(b). To apply for party status in this proceeding, please read and follow the instructions under the "Parties" column found on the following page located on the DPS web page: http://documents.dps.ny.gov/public/MatterManagement/RequestAPStatus.aspx?MatterCaseNo=12-g-0297.

The Commission orders:

1. A proceeding is instituted to examine the Commission policies regarding the expansion of natural gas service in New York State.

2. The Secretary may extend deadlines set forth in this order for good cause shown.

[15] Why Register with DMM, http://www.dps.ny.gov/DMM_Registration.html
How to Register with DMM, http://www.dps.ny.gov/e-file/registration.html

3. This proceeding is continued.

By the Commission

Jaclyn A. Brilling
Digitally Signed by Secretary
New York Public Service Commission

(SIGNED) JACLYN A. BRILLING
Secretary

ISSUES TO BE CONSIDERED AT THE TECHNICAL CONFERENCE

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?

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.

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.

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.

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.

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?

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?

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.

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?

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)?

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?

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

Economic Development

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

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

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?

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?

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.

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?

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?

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.