

Filed Session of May 16, 2013
Approved as Recommended
and So Ordered
By the Commission

JEFFREY C. COHEN
Acting Secretary

Issued and Effective May 17, 2013

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

May 3, 2013

TO: THE COMMISSION

FROM: OFFICE OF ELECTRIC, GAS AND WATER
- Gas Policy and Supply

SUBJECT: CASE 13-G-0063 – Filing by KeySpan Gas East Company d/b/a National Grid to add and clarify provisions related to electric generators that take transportation service under Service Classifications No. 7 – Interruptible Transportation Service and No. 14 – Non-Core Transportation for Electric Service.

SUMMARY OF

RECOMMENDATION: Staff recommends that the tariff amendments, regarding the aggregation of individual generator imbalances, be allowed to become effective seven calendar days from the issuance of this Order, while all other amendments should be effective June 1, 2013.

SUMMARY

On February 15, 2013, KeySpan Gas East Corporation d/b/a National Grid (National Grid or the Company), filed tariff amendments to its gas schedules (February 15 Filing) for electric generators taking service in their territory. The proposed tariff amendments: (1) modify its tariff to enable a customer taking transportation service under

Service Classification No. SC 7 – Interruptible Transportation Service (SC-7) and/or Service Classification No. SC 14 – Non-Core Transportation for Electric Service (SC-14) to balance gas deliveries on an aggregated basis to one or more of the customer’s electric generating facilities to mitigate daily imbalances and the associated daily balancing charge; (2) modify the SC 14 daily balancing charges and provisions to use published indices to set cashout prices, and to revise the cash out tiers; and (3) clarify provisions regarding the applicability of a \$100 per dth penalty charge for unauthorized overruns following an operational flow order (OFO). The filing has a proposed effective date of June 1, 2013.

Staff has reviewed the Companies’ proposed tariff revisions, as well as the comments provided, and finds that as a result of the revisions, firm gas customers on the Company’s system will be adequately compensated for the balancing assets used by the electric generators. In addition, the revisions will provide an incentive to electric generators to better manage imbalances which helps to preserve system reliability. Accordingly, Staff recommends that the tariff amendments regarding the aggregation of individual generator imbalances¹ be allowed to become effective seven calendar days from the issuance of this Order, while all other amendments should be effective June 1, 2013.

BACKGROUND

Since May 1998, National Grid and its predecessors have provided gas transportation service to the Long Island Power Authority (LIPA) to fuel LIPA’s electric generation plants pursuant to successive service agreements. As the most recent negotiated contract for transportation and balancing service between National Grid and

¹ The proposed tariff amendments associated with the aggregation of generator imbalances by a balancing agent include leaves 119.11, 119.12, 119.13, 119.14, and 119.15.

the Long Island Power Authority (LIPA)² approached the end of its term, the Company reviewed both the existing contract with LIPA (Existing T&B Agreement),³ as well as the Company's gas transportation and balancing tariff provisions, to determine whether changes needed to be made to bring them into compliance with the Commission's June 23, 2009 Order (2009 Balancing Order) in Cases 06-G-1185 and 06-G-1186.⁴ The Commission's 2009 Balancing Order, issued after the Company and LIPA finalized the Existing T&B Agreement, sought to fairly allocate the cost of balancing services by basing such costs on the level of service and value provided to each customer class, including those served under individually negotiated contracts.

As a result of its review, on February 15, 2013, the Company filed the proposed tariff amendments. On a parallel path, National Grid and LIPA negotiated a new transportation and balancing contract (New T&B Agreement) to take effect upon expiration of the Existing T&B Agreement. The Company and LIPA intend that the New T&B Agreement be more consistent with the Commission's 2009 Balancing Order as reflected in the Company's proposed tariff amendments, while providing some amount of cost reduction for LIPA.

FILING

In its February 15 Filing, the Company proposed tariff amendments to allow aggregation of imbalances, to modify the SC 14 daily balancing provisions and to clarify the penalty charge for unauthorized use during an OFO. National Grid's proposed

² In 1998, LIPA acquired the Long Island Lighting Company (LILCO)'s electrical transmission and distribution system, as well as certain other assets, and became the primary supplier of electricity on Long Island. In that same year, LILCO's remaining assets, including its electrical generating facilities, were merged with Brooklyn Union Gas, creating a new publicly-traded utility corporation called KeySpan Corporation (KeySpan). In October 2007, National Grid LLC purchased KeySpan and legally assumed KeySpan's contracts with LIPA.

³ Omnibus Gas Transportation and Balancing Agreement entered into March 23, 2007 for the period of November 27, 2009 through May 28, 2013.

⁴ Cases 06-G-1186 and 06-G-1186, The Brooklyn Union Gas Company d/b/a Keyspan Energy Delivery New York, KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island, Order Approving Transportation and Balancing Collaborative Report Recommendations with Modifications (issued June 23, 2009).

changes allow for pooling, also known as aggregation, of the imbalances for all generating units served by a single balancing agent, which would otherwise be cashed out on an individual basis, reducing the likelihood of incurring balancing penalties. National Grid also proposed to tighten its cashout tiers and increase the associated penalty charges, as an incentive for generators to more diligently manage their imbalances. Finally, the Company has proposed to clarify the wording in its tariff regarding the applicability of a \$100 per dth penalty charge for unauthorized use of gas during an OFO, which is required to ensure that imbalances are at a minimum during periods of high usage and emergency situations.

PUBLIC NOTICE

KeySpan Gas East Corporation d/b/a National Grid has complied with newspaper publication as required pursuant to Public Service Law §66(12)(b) and 16 NYCRR §720-8.1. Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on March 13, 2013. On April 22, 2013, LIPA filed comments (April 22 Comments) in response to the February 15 Filing to state its concerns regarding how the new tariff provisions might impact the recently finalized New T&B Agreement providing for gas transportation and balancing service to LIPA's "Legacy" generating stations on Long Island.⁵ National Grid filed a response to LIPA's comments on April 30, 2013 (April 30 Comments).⁶

In its April 22 Comments, LIPA notes that it supports the Company's proposed pooling, or aggregation, of imbalances for all generating units served by a single balancing agent, although it would like to see trading of imbalances between balancing agents; requests that such proposed imbalance aggregation be made effective as of May 28, 2013, so that it does not have to cash out each individual generator in the

⁵ The "Legacy" generators include the Northport, Port Jefferson, and E.F. Barrett Steam Stations, as well as the E.F. Barrett Turbine Site.

⁶ While the public comment period under SAPA expired on April 27, 2013, National Grid's April 30 Comments should be considered despite its untimeliness because they are relevant to providing further context to LIPA's concerns.

short period between its Existing T&B Agreement and June 1, 2013, the effective date of the tariff changes proposed by the Company; and that it opposes the Company's proposed cashout tiers and associated imbalance penalties adjustments because they are more stringent than the existing tiers and penalties which could lead to higher costs to LIPA's electric customers.

In addition, LIPA expressed other concerns related to the New T&B Agreement, noting its opposition to the reduction in the market based cashout tier from +/-4% to the tariffed tolerance of +/-2%; its opposition to the inclusion of the value added charge and minimum bill obligations; and its request that if required to pay for additional charges from the New T&B Agreement, such charges be phased in over the five year life of the New T&B Agreement.

In its April 30 Comments, the Company provides justification of its proposed amendments to the SC-14 cashout provisions, provides options to address LIPA's complaints regarding the inability to trade imbalances between balancing agents and the timing of the implementation of the balancing agent mechanism in the tariff and addresses the applicability of the other SC-14 tariff charges.

DISCUSSION

Tariff Filing

LIPA supports the Company's tariff amendments that allow the aggregation of imbalances for all generating units served by a single balancing agent, although LIPA notes that it also wants the tariff to allow the trading of imbalances between balancing agents. The Company does not oppose the concept of imbalance trading among SC-7/SC-14 generators, in a manner similar to the current imbalance trading among Energy Service Companies (ESCOs), but states that it would take time and money to develop a billing system to implement such change and that the costs for such a system should be borne by SC-7 and SC-14 generators. Staff supports the Company's proposed aggregation of imbalances under a balancing agent. Staff also supports LIPA's proposed option for aggregation between balancing agents, believing that such trade could further

the goal of providing for an efficient market. Staff also agrees with the Company that the SC-7/SC-14 generators who would be the main beneficiaries of such a system should pay for any system development costs. It is currently unclear, however, whether support for implementing the larger trade system exists should the generators be required to pay for such costs. Accordingly, Staff recommends that the Company's proposal for aggregation be implemented now, but that a larger system allowing for imbalance trading between balancing agents should be investigated. National Grid is in the best position to facilitate communications between the SC-7 and SC-14 generators, as well as to fairly advise such generators of the costs involved, to determine if such an inter-balancing agents trading program is supported.

LIPA also notes that the timing between the end of the Existing T&B Agreement, May 28, 2013, and the beginning of the New T&B Agreement, June 1, 2013, creates a three day window in which pooling of imbalances would not be allowed, requiring each of the "Legacy" generators to cash out individually during that interval. Thus, LIPA requests that the effective date of the Company's proposed tariff revisions should be moved up to eliminate this concern. The Company supports LIPA's request, but only as to the amendments specific to aggregation of imbalances under a balancing agent. Staff appreciates that there are potential financial impacts of LIPA having to cash out each of its "Legacy" generators individually, even for a short period of time. Staff also appreciates that moving up the effective date of all the Company's proposed tariff revisions potentially impacts other generators who were advised by the Company's February 15 Filing that such amendments would go into effect on June 1, 2013. Therefore, Staff recommends changing the effective date of only the tariff provision(s) related to aggregation to become effective prior to the end of the Existing T&B Agreement.

LIPA opposes the more stringent balancing tiers proposed in the February 15 Filing, claiming that the tighter tiers would cost its electric customers about \$4 million per year which appears to be an unjust windfall to National Grid's firm gas customers at the expense of LIPA's electric customers. In response, the Company states that the

proposed amendments were intended to fairly compensate the firm gas customers for the costs of the storage and delivery assets required to provide its balancing service and to discourage generators from accumulating large imbalances that could have an adverse impact on system reliability. National Grid also notes that the generators contracted by LIPA represents the largest load on National Grid's system, representing as much as 86 percent of daily throughput, and therefore even a small percentage imbalance on such a large load can create relatively large system imbalances. Staff agrees with the Company. Staff recommends that since LIPA does not directly pay for the assets used for balancing its generation load outside of the tariffs +/-2% market based cashout tier, the Company should maintain aggressive penalty tiers to recover the costs to National Grid's firm gas customers of these assets from LIPA's electric customers.

There were no comments regarding the Company's proposed revision to its provisions regarding the applicability of a \$100 per dth penalty charge for unauthorized overruns following an OFO. Staff notes that the revision merely clarifies the application of the existing penalty charge relating to negative imbalances that occur during an OFO, at which time daily balanced customers must strictly adhere to their supply nominations to ensure system reliability. Therefore, Staff recommends that the Commission allow such revision.

Negotiated Contract

National Grid's April 30 Comments note that this proceeding is not the proper forum to discuss LIPA's concerns with the existing SC-14 tariff charges because such concerns are not within the scope of the Company's February 15 Filing. Staff agrees. It is important to note that while LIPA projects a \$19 Million increase in transportation and balancing costs (equating to a 0.5% bill increase to LIPA's electric customers), only \$4 Million of the increase (equating to a 0.1% bill increase to LIPA's customers) is related to the tariff revisions proposed by the Company. The remaining increase projected by LIPA is strictly related to contract terms, agreed to by the two parties in the New T&B Agreement. Staff can discern no reason why the Commission

should become involved in the terms of the New T&B Agreement. Revenues generated from balancing penalties will be directly passed back to National Grid's firm gas customers, who pay for a majority of the assets used to provide balancing services. Revenues from the newly applicable tariff charges are included in the existing non-firm revenue mechanism, which results in those charges being shared 90% by ratepayers and 10% by shareholders based on an imputed revenue expectation. Although LIPA claims that these new revenues will be an unjust windfall to gas customers, as noted above, in actuality LIPA has been receiving the benefit of assets paid for by those same customers for several years. The Company's filing seeks to remedy that situation on behalf of its firm gas customers.

CONCLUSION AND RECOMMENDATION

Bases on Staff's review of the proposed tariff amendments and the comments provided by LIPA, Staff find that the amendments should be allowed to become effective with the exception that the proposed tariff amendments regarding the aggregation of imbalances by a balancing agent should be made effective on or prior to May 28, 2013, so that LIPA does not incur additional penalties associated with the cashout of each of its generators individually in the three day period between its Existing Transportation and Balancing Agree and June 1, 2013, the effective date of the tariff changes proposed by the Company. In addition, Staff supports LIPA's position to allow imbalance trading between individual Balancing Agents, but does not believe that such relief is warranted at this time based on the available record. Therefore National Grid should be ordered to submit a report to the Commission within 90 days of the effective date or this order that provides implementation details and the projected costs involved to develop an appropriate computer support system required and addresses any other issues related to effectuating imbalance trading between Balancing Agents of SC 7 and SC 14 customers.

It is recommended that:

- 1) the tariff amendments to leaves 119.11, 119.12, 119.13, 119.14, and 119.15 be authorized to become effective seven calendar days from the issuance of this Order;
- 2) the remaining tariff amendments listed in the Appendix be authorized to become effective on June 1, 2013;
- 3) KeySpan Gas East Company d/b/a National Grid is directed to investigate whether a proposal should be made regarding the facilitation of trade between balancing agents by contacting the electric generators taking transportation service under Service Classification No. SC 7 – Interruptible Transportation Service and/or Service Classification No. SC 14 – Non-Core Transportation for Electric Service and to file a plan with the Secretary of the Commission, within 90 days of the issuance of this Order, detailing how it plans to modify its tariff, Gas Transportation and Operations manual and/or its procedures to allow imbalance trading between individual balancing agents, or to present the results of such investigation explaining why it has determined that no such proposed modification is necessary at this time;
- 4) the Secretary, at his sole discretion, can extend deadlines set forth in this Order; and
- 5) this case is continued.

Respectfully submitted,

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Reviewed by:

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Approved by:

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SUBJECT: Filing by KeySpan Gas East Corporation d/b/a National Grid NY (KEDLI)

Amendments to Schedule P.S.C. No. 1—Gas

Original Leaf No. 188.1

First Revised Leaves Nos. 188, 191, 192, 196, 206, 207, 208, 209, 210

Second Revised Leaves Nos. 193, 195, 200, 201, 202, 203, 204, 205

Third Revised Leaves Nos. 14.1, 119.1, 119.2, 119.3, 119.4, 119.5, 119.6, 119.7, 119.8, 119.9, 119.10, 119.13, 119.15, 197, 199

Fourth Revised Leaves Nos. 119.11, 119.12, 119.14

Fifth Revised Leaves Nos. 184, 185, 186

Sixth Revised Leaf No. 153

Seventh Revised Leaves Nos. 6, 16, 149, 187

Eighth Revised Leaves Nos. 14, 108, 151

Ninth Revised Leaves Nos. 106, 107

Eleventh Revised Leaves Nos. 152, 154

Received: February 15, 2013

Effective on a Temporary Basis
on June 1, 2013

SUBJECT: Filing by KeySpan Gas East Corporation d/b/a National Grid NY (KEDLI)

Amendments to Schedule P.S.C. No. 1- Gas

Second Revised Leaf No. 192

Sixth Revised Leaf No. 184

Received: April 19, 2013

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on June 1, 2013

SAPA: 13-G-0063SP1 – STATE REGISTER – March 13, 2013.

NEWSPAPER PUBLICATION: April 17, 24, and May 1, and 8, 2013.