Consumer Power Advocates

Continuum Health Partners
Fordham University
Luthin Associates, Inc.
Memorial Sloan Kettering Cancer Center
Montefiore Medical Center
Mount Sinai Medical Center
New York Presbyterian Hospital
New York University
NYU Hospitals Center

Via e-mail to secretary@dps.ny.gov

March 12, 2013

Honorable Jeffrey Cohen
Acting Secretary
New York Public Service Commission
Three Empire State Plaza
Albany, New York
12223-1350

RE: Case 12-G-0297- Natural Gas Service Expansion

Dear Acting Secretary Cohen:

Consumer Power Advocates' mission is to lower energy costs for our members through representation in energy-related regulatory and legislative proceedings. CPA is an alliance of large not-for-profit institutions in the greater New York region. Our membership is open to hospitals, universities, medical schools, and cultural institutions. CPA members include some of the largest employers and energy users in New York State. Six of our recent member hospitals are among the 15 largest regional health organizations including five of the ten largest. All of our members purchase electric and gas services from Con Edison. Six current CPA members, among hospitals, universities, and other related institutions, are among New York City's 25 largest employers according to *Crain's New York Business*.

Below is a list of our current members:

New York Presbyterian Hospital
Continuum Health Partners
Fordham University
Memorial Sloan-Kettering Cancer Center
Montefiore Medical Center
Mount Sinai Medical Center
New York University
New York University Hospitals Center

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Our comments at this time are limited to the six questions enumerated below:

1. Please explain your understanding…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?

From our knowledge of current tariffs, we understand the Commission's general policy is to require customers to fund a large portion of the cost of new facilities required to serve new or increased load. These Contributions on Aid of Construction (CIAC) payments are designed to avoid causing short term pressure to increase rates by determining the payment based on a comparison of the cost of return and depreciation on a new plant to the expected revenue. This method creates higher costs and implies an insufficient rate of return in the early years of the plant service life. This insufficiency is wholly the artifact of the ratemaking process. CIAC payments should be based on a discounted cash flow analysis (DCF) over the expected life of the incremental plant required to serve the load. This DCF should include a reasonable escalation of revenue to account for expected rate increases. This protects long term ratepayer and company interests, while providing just and reasonable rates to new customers. To the extent there are negative short term impacts on rates, those impacts are offset by the environmental and economic benefits accruing from the increased use of natural gas service. In any event, the Commission has broad discretion to determine the timing of cost recovery, as evidenced by the numerous deferrals included in rate cases and by CIAC itself, and it can use that discretion to minimize those short term impacts.

Further, as we discuss below, CPA believes that discretionary rate interruptible tariffs should be reconsidered, and the discretion available to utilities curtailed.

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.

CPA believes that ratepayers, shareholders and the State, as a whole, have an interest in financially healthy utilities, generally, and in the increased availability of natural gas for environmental improvements and economic growth. We find that in two areas, Commission regulations cause a disconnect among the interests of those groups. First, as discussed above, CIAC unnecessarily discourages gas system growth by requiring increased payments to serve new loads. Second, Revenue Decoupling Mechanisms

(RDM), at least in some cases, prevent utilities from enjoying the revenue benefit of increased sales to new customers. RDM was explicitly designed to reduce the incentive to increase energy sales in order to encourage utilities to promote energy efficiency. We observe that energy efficiency is now established as a core strategy of many utilities, but the disincentive to increase sales remains in RDM, and this disincentive extends to socially valuable oil-to-gas conversions, at least in some cases. Finally, discretionary tariffs for interruptible rates make the cost of that service excessive and unnecessarily uncertain.

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

As discussed above, CIAC, as currently applied, requires excessive payments from customers attaching new loads. Unlike the cost of new heating equipment, CIAC payments do not support property owned by the customer, and therefore cannot be financed through conventional building loans. Thus, excessive CIACs not only cause additional cash costs, they increase overall risk to the customer.

Another barrier is the use of "negotiated" rates for interruptible gas service. At the time the policy for discretionary rates was developed, fuel oil was plentiful and cheap, and its environmental consequences were not fully recognized in building or fuel use codes. In the present circumstance, fuel oil is far more costly for boiler use than natural gas, even where codes do not severely restrict its use. This has allowed utilities the opportunity to increase interruptible rates far above the cost of that service. In some cases, interruptible rates exceed the rate for the otherwise applicable firm service. This situation discourages potential customers from choosing interruptible service over firm service, which in turn requires a greater investment in facilities to provide that firm service. The Commission should restrict the discretion allowed distribution companies, and require interruptible service to be offered at a rate sufficiently lower than firm service to account for the cost savings and reliability benefits accruing from the customers' commitment to interrupt.

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?

CPA believes current customers should be protected from uneconomic expansion of the system, but that this protection should not be absolute. Clearly, the Commission has the authority to prevent an expansion that threatens the financial stability of the utility, and it should use that authority without restriction. On the other hand, the Commission should consider the long term environmental and economic benefits of a particular system expansion, and weigh those against any short term increase in revenue requirements resulting from that expansion.

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)?

CPA does not believe CIACs should be used to fund the expansion of service. CIAC was implemented to address the putative issue that new customers cause short term increases in rates to all current customers. The capital contribution of any individual CIAC payer is inconsequential to the financial health of the utility. The financial resources available to regulated utilities are orders of magnitude greater than the resources of all but the very largest of their customers. Large scale expansions are best financed by a prudent combination of internal cash flow and the debt and equity markets.

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

CPA believes a poorly designed RDM has the potential to discourage the expansion of the delivery system. As noted above, RDM is intended to discourage the inefficient use of energy by changing the incentives for utilities to increase sales. In most cases that we are aware of, all sales are reconciled through the RDM, and the inclusion of new customers essentially eliminates the revenue opportunity for the utility, while leaving it with the cost of new facilities. This is a critical RDM issue that should be addressed in all rate cases.

Thank you for your consideration of these comments.

Respectfully submitted,

Catherine M. Luthin

Executive Director
Consumer Power Advocates

cc: All Active Parties