

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on November 16, 2017

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Gregg C. Sayre
Diane X. Burman, concurring
James S. Alesi

CASE 17-G-0432 - Petition of New York State Electric & Gas
Corporation for Authorization to Construct a
Natural Gas Compressor Pilot Project in
Tompkins County, NY.

ORDER AUTHORIZING NATURAL GAS COMPRESSOR PILOT PROJECT

(Issued and Effective November 16, 2017)

BY THE COMMISSION:

INTRODUCTION

On July 19, 2017, New York State Electric and Gas Corporation (NYSEG or the Company) filed a Petition seeking Commission authorization for a proposed natural gas compressor pilot project in Tompkins County, New York (Compressor Project). The Company also seeks authorization to include the capital costs associated with the Compressor Project in its rate base as an addition to gas plant and to defer any associated incremental operating and maintenance (O&M) costs.

By this Order, the Commission authorizes NYSEG to proceed with the pilot Compressor Project in Tompkins County, New York and to include the associated prudently incurred capital costs in its rate base. However, the Company's request

to defer the incremental O&M costs associated with the Compressor project is denied because the expense forecasted to be incurred during the rate plan is immaterial.

In addition, the Commission directs NYSEG to issue a Non-Pipes Alternatives Request for Proposals (RFP) within 30 days of issuance of this Order to address the pending gas demands in the Tompkins County area. Finally, as discussed below, the Company is directed to file with the Secretary copies of O&M procedures, emergency plans, capital expenditure variance reports, as well as quarterly performance reports of all district regulator stations located in the Ithaca distribution system.

BACKGROUND

According to the Company, in recent years it has experienced significant growth in natural gas load in its Ithaca Division. While it has reinforced the system over the years, it has now reached the point where such work has reached its limitations and during peak day conditions, the north end of the distribution system serving the vicinity of Ithaca, primarily in the Town of Lansing, loses its ability to maintain minimum acceptable pressures.

Since mid-2013, NYSEG has planned the construction of a new gas supply project, the Lansing/Freeville Reinforcement Pipeline Project (Pipeline Project). In the 2015 rate case, Case 15-G-0284, the Company proposed the development of the Pipeline Project to address the need for additional gas supply and pressure reinforcement in the Town of Lansing. The Company asserts that the gas distribution system in the Lansing area has experienced pressure drops below normal operating pressure and well below the maximum system design criteria and that continued pressure drops can create safety and reliability issues, which

may require curtailment of some firm natural gas customers. Thus, to mitigate the system pressure issues and ensure safe and reliable service to its current customers, in February 2015 NYSEG issued a moratorium indicating that the Company would be unable to accept any new applications for gas service in this area. The Company reports that demand for new gas service has continued to grow, and the low-pressure level issues on the existing system have continued since that time.

NYSEG was authorized to proceed with the Pipeline Project and develop additional near and long-term sources of supply to address the needs of the community.¹ However, after discussions with various stakeholders in the affected area and Department of Public Service staff (Staff), NYSEG proposed the Compressor Project to address the safety and reliability issues associated with the low pressure on the system. NYSEG states that a number of Tompkins County representatives have expressed a strong desire to see "non-pipes" alternatives to the Pipeline Project to help meet Tompkins County's greenhouse gas emission reduction goals. Thus, NYSEG is now proposing the Compressor Project pilot, which would develop and test the use of compressors to boost system pressures on its distribution system during peak gas usage.

NYSEG proposes to install four electrically powered compressors placed strategically within the gas distribution system to boost system pressures in stages during peak demand times. The Company states that this is a unique approach to the issue of gas distribution system pressure drops, one which has not previously been tested in New York State. Upon Commission approval of the concept, the Company states it will begin full-

¹ Case 15-G-0284, et al., NYSEG Gas - Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016) (2016 Rate Order).

scale implementation with planned completion in time for most of the 2018/2019 winter heating season.

According to the Company, completion of the proposed Compressor Project pilot would not lift the moratorium on new gas connections currently in place in certain areas of Tompkins County, as it is designed to only address the current low pressure issues on the system. To address the moratorium, NYSEG states that, after approval of the proposed pilot, it will be issuing a Non-Pipe Alternative RFP which will seek proposals to address not only the current pressure and reliability issues, but also to address the pending demands for the provision of gas service in the area, for both existing customers as well as for new customers. If customers and the Company have no reasonable economic alternatives, the Company states that it would likely need to reexamine the Pipeline Project. NYSEG indicates that it will continue to engage local stakeholders through a transparent and frequent outreach effort and proposes to keep the Commission informed by filing periodic RFP project status reports.

PUBLIC COMMENTS

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on August 9, 2017 [SAPA No. 17-G-0432SP1]. The time for submission of comments pursuant to the Notice expired on August 14, 2017. A notice soliciting comments was issued by the Secretary on September 8, 2017, with responses due on or before September 25, 2017.

Numerous residents of Tompkins County, as well as public officials, expressed support for NYSEG's proposed Compressor Project and opposition to traditional "pipes" solutions. The comments emphasized the need to curtail the reliance on fossil fuels and not invest in new infrastructure,

such as the pipelines, that could become stranded assets, but rather, invest in energy efficiency and heat pumps.

Representatives from the Sierra Club, Environmental Defense Fund, and Tompkins County Area Development also filed comments supporting the proposed Compressor Project. Tompkins County Area Development further stated that the Pipeline Project should be reconsidered if potential customers do not have a reasonable and economical non-pipeline solution.

While most comments received were in support of the proposed Compressor project, the Town of Lansing Supervisor Edward LaVigne criticized the proposal for failing to address the unsatisfied gas demand of current and new customers and moratorium on new gas connections in the Village and Town of Lansing. Supervisor LaVigne strongly supports the Pipeline Project as "Lansing has significant pent-up demand for development and housing" and the proposed Compressor Project will not address the area's gas demand and future needs. Supervisor LaVigne asked the Commission to take an objective look at the various proposals and weigh the economic impacts and benefits of these proposals and further claims that the Town of Lansing and New York are losing economic opportunities to other states.

Multiple Intervenors (MI) filed comments expressing general support for the Company's Petition for this particular non-pipes solution, but stated that it was concerned regarding the lack of a benefit/cost analysis in the filing. However, MI argues that non-pipes alternatives should only be pursued if a benefit/cost analysis shows demonstrable benefits to customers and asks that such an analysis be performed for the non-pipes alternatives provided in response to the RFP proposed by NYSEG.

STATE ENVIRONMENTAL QUALITY REVIEW ACT

Under the State Environmental Quality Review Act (SEQRA), Article 8 of the Environmental Conservation Law (ECL), and its implementing regulations in 6 NYCRR Part 617 and 16 NYCRR Part 7, all State agencies must determine whether the actions they are requested to approve may have a significant impact on the environment. The proposed action entails granting authorization to NYSEG to proceed with the novel Compressor Project it has proposed and establishing associated ratemaking and reporting requirements. The proposed action is therefore not subject to approvals from any other agencies and as such we are acting as Lead Agency and no coordinated review under SEQRA is necessary. The Commission has conducted an environmental review and have classified the proposed action, the regulatory approval of the novel system reliability work as generally proposed by the Company, as an Unlisted Action. The Commission has determined that the concept and regulatory treatment of the Compressor Project will not result in significant adverse environmental impacts.

The proposed action is an Unlisted action, as defined in 6 NYCRR §617.2 (ak) because the action does not rise to the level of a Type I action and is not listed on the Commission's list of Type II activities (16 NYCRR §7.2) or those found at 6 NYCRR §617.5. 6 NYCRR §617.6(a)(3) requires applicants to submit a completed environmental assessment form (EAF) describing the proposed activity and disclosing the likely or potential environmental impacts of the proposed actions. Petitioner submitted Part I of the long form EAF. Parts II and III of the EAF were completed by Staff and the EAF is retained in the Commission's files.

The Compressor Project is a pilot project proposed by NYSEG to address pressure and reliability issues by using

electric compressors to boost system pressures in stages during peak demand times. NYSEG has identified potential compressor sites, but has not finalized locations. As such, our SEQRA review is limited to granting NYSEG authorization to move forward to develop the Compressor Project and to address the Company's concerns regarding accounting and ratemaking treatment of the project. When plans for the Compressor Project are finalized and submitted to the necessary agencies for approvals, those agencies will need to conduct SEQRA reviews that assess potential impacts to the environment, such as noise, based upon specific site locations and project design.

After a review of the EAF and the Petition, the Commission concludes that, based upon the criteria for determining significance listed in 6 NYCRR §617.7(c), authorization of the Compressor Project, along with the ratemaking and reporting requirements will not result in significant adverse environmental impacts. Upon review of the information contained in the Company's EAF, the supporting information provided and Staff's review of the record, the Commission adopts a negative declaration for the proposed action and will issue a Notice of Negative Declaration, and retain the long-form EAF (Parts 1-3) in the Commission's files. This negative declaration will be issued simultaneously with this Order.

LEGAL AUTHORITY

Under Public Service Law (PSL) §66, the Commission has broad powers over the provision of utility service by gas corporations, which includes the ability to regulate the means by which gas corporations provide service to their customers and the responsibility to ensure safe and adequate gas service to customers.

DISCUSSION AND CONCLUSION

By this Order, the Commission authorizes NYSEG to proceed with its proposed Compressor Project pilot and to include the associated prudently incurred capital costs in rate base.² However, the Company's request to defer the incremental O&M costs associated with the Compressor Project is denied as forecasted expenses are immaterial. NYSEG has demonstrated that there is a need to address the system pressure issue as soon as possible to ensure that its current customers in the Lansing area are provided gas at sufficient pressure to ensure safe and reliable service. In addition, a less immediate problem exists with respect to meeting the pending gas demand. The Commission agrees that conservation efforts to reduce usage, especially discretionary usage, during peak demand periods could provide value for general conservation purposes and play a significant role during periods of cold weather. We do not, however, expect that conservation measures that are within the Company's control, in and of themselves, can resolve a material future shortfall in gas supply or eliminate the need for an additional long-term supply source given growing demand expectations. The implementation of the Compressor Project pilot by NYSEG will not allow the Company to lift the moratorium on new gas service connections currently in place in the Lansing/Tompkins County service area, as the pilot project addresses only the safety, pressure and reliability issues associated with existing customers in the Town of Lansing.

The Commission agrees, however, that it is sensible for the Company to test in this pilot whether such compression

² As discussed in the deferral accounting section, the 2016 Rate Order provides for a net plant true-up. Therefore, no adjustment to the capital budget for the Company's gas business is required.

equipment can be used to address pressure drops within a gas distribution system and whether such compression equipment will be supported by customers and the stakeholders. Therefore, this pilot project may go forward, subject to the ratemaking and reporting requirements. The Commission understands MI's desire for a benefit/cost analysis to be performed. However, this pilot project is a novel way of addressing pressure issues without spending the significant capital investment that the Pipeline Project would entail. To address the concerns of the Town of Lansing's Supervisor LaVigne, we direct that the Company issue within 30 days of issuance of this Order, a Non-Pipe Alternatives RFP to seek proposals to address not only the current pressure and reliability issues, but also to address the pending demands for the provision of gas service in the area, for both existing customers as well as new customers. A copy of the RFP shall be filed with the Secretary within 45 days of the issuance of this Order. To address the comments of MI regarding benefit/cost analyses for the non-pipes solutions that may be proposed in the RFP, the Commission directs NYSEG to perform such an analysis for each proposal including those that are rejected, if any. The benefit/cost analyses shall be conducted from both a Company and customer perspective, considering the State and Tomkins County's emission reduction goals.

Deferral Accounting

The Company requests authority to include the associated prudently incurred capital costs in its rate base and defer any incremental O&M costs associated with the Compressor Project. The Pipeline Project was estimated to cost \$18.6 million and was expected to go into service by the winter of 2019. Because the cost of the Compressor Project is estimated at \$4.0 million, the difference in the net plant and associated depreciation expense would be credited back to customers in the

net plant reconciliation. It is noted that the Company's original estimated cost of the project did not include the costs associated with developing specific emergency response functions, procedures and the associated training activities which the Company estimates in its response to Staff information request (IR) DPS-9 to be \$20,000. The Company proposed to capitalize this cost as part of the pilot project. We agree with the Company's proposal, and due to the magnitude of this cost, it has no material impact to the total project cost.

In its initial filing the Company estimated O&M costs to be between 5% and 15% of the total capital cost and stated it was difficult to forecast since the equipment has not been used previously by NYSEG. However, in a response to Staff IR DPS-2, the Company provided specific projected annual cost estimates for maintenance and inspections of approximately \$27,000 per year after the in-service date, and another \$8,500 for annual inspections and monitoring that would begin within one year of the in-service date. Since the Company is not pursuing the Pipeline Project now, it should only consider the incremental O&M costs between the two projects. The incremental O&M costs (projected O&M costs for the Compressor Project less O&M costs recovered in base rates from the Pipeline Project) for the first year after in service (i.e., calendar year 2019) is projected to be essentially zero, depending on the exact timing of the in-service date of the Compressor Project and when NYSEG begins annual inspections. Thus, the Commission determines that the incremental O&M is immaterial and the requested deferral treatment is denied. The current rate plan established in the 2016 Rate Order ends on April 30, 2019, and the Company can address such O&M expense needs in a subsequent rate filing.

Safety Issues Associated with the Compressors

To ensure public safety, the compressors and associated piping shall be designed, constructed, tested, operated and maintained in accordance with the provisions of 16 NYCRR Part 255 applicable to compressor stations and distribution systems including, but not limited to, welding, welding inspection, coating, cathodic protection, over pressure protection, leak survey, odorization, operator qualifications, and integrity management. To further ensure that the Compressors are operating in a safe manner, the Company is directed to draft and file with the Secretary the starting, operating, and shutdown procedures for each gas compressor unit. In addition, the Company is directed to create and file with the Commission site specific emergency response procedures for each of the new compressor locations. If the Company designs, constructs, tests, operates and maintains the new compressors in accordance with the provisions of 16 NYCRR Part 255, as they are required to, there should be no undue hazard posed to persons or property near the new compressors.

Public Involvement and Outreach

A critical element for the successful development and implementation of the Compressor Project is a public involvement program designed to engage the public and inform affected communities about the proposed pilot, especially in light of the fact that the pilot was developed as a result of discussions with community stakeholders who encouraged the Company to find alternative "non-pipe" solutions.

The Petition includes information regarding public involvement for the Compressor Project, including identifying elected, municipal, and community stakeholders, outreach methods and budget. During review, clarification was requested in Staff IR DPS-7, question 4 regarding NYSEG's outreach plan, suggesting

additional municipal officials be added to the stakeholder list. In response to that IR, NYSEG submitted an updated stakeholder list and provided additional details regarding planned outreach activities, including meetings with elected officials, municipal leaders and community groups, public information sessions, direct mail to property owners near the project site regarding project milestones, the establishment of a Compressor Project information line and the development of outreach materials, including a page on NYSEG's website.

In response to Staff IR DPS-8, the Company also provided information regarding its outreach to, and coordination with, local emergency responders as part of its site-specific emergency response plan. NYSEG has identified local responders within the potential Compressor Project footprint and nearby areas and will solicit input regarding the development of site-specific emergency plans. NYSEG states that it will also coordinate schedules for formal training with the responders.

According to NYSEG's response to Staff IR DPS-7, question 3, regarding the schedule for its outreach activities, the Company indicates that it plans to implement the public involvement program following regulatory approval of the Compressor Project. To ensure that stakeholders were aware of the proposal prior to Commission action, both the Department and the Company conducted public involvement activities. In addition, Staff reports that pursuant to discussions with the Company, NYSEG distributed copies of the Commission's September 8, 2017 Notice Soliciting Comments to this updated stakeholder list.

Reporting Requirements

Considering that the Compressor Project is a pilot project intended to test the viability of compressors to boost system pressures during peak usage, the project cost and

performance will be closely monitored by the Commission. Therefore, the Company is directed to file with the Secretary quarterly reports, within 30 days after the end of the quarter, updating the Commission on the status of the project and comparing its capital forecast with its actual capital expenditures. Expenditure variances greater than 10% for any major project activity shall be explained in detail. The reports shall also include a detailed description of outreach efforts conducted during the quarter.

The Company is also directed to file quarterly reports, within 30 days after the end of the quarter, regarding the internal pressures during periods of peak demand of all the district regulator stations throughout the Ithaca distribution system especially at the far (north) end of the system in Lansing that are monitored remotely by NYSEG's Gas Control Center. The Lansing terminal pressure and the pressures recorded at various district regulator stations shall be analyzed and compared to anticipated results predicted in the network model analysis, and compared to recent historical pressures.

The Commission orders:

1. New York State Electric and Gas Corporation is permitted to proceed with and is authorized to include the capital costs associated with the Natural Gas Compressor Pilot Project in Tompkins County, New York in its rate base as an addition to gas plant.

2. New York State Electric and Gas Corporation's request for authorization to defer any associated incremental operating and maintenance costs is denied.

3. New York State Electric and Gas Corporation is directed to issue a Non-Pipe Alternatives Request for Proposals, within 30 days of issuance of this Order, to seek proposals to address not only the current pressure and reliability issues in the Ithaca Division and the Town of Lansing, but also to address the pending demands for the provision of gas service in the area, for both existing customers as well as new customers.

4. New York State Electric and Gas Corporation is directed to file with the Secretary to the Commission a copy of the Request For Proposals identified in Ordering Clause No. 3 within 45 days of issuance of this Order.

5. As discussed in the body of this Order, New York State Electric and Gas Corporation is directed to file with the Secretary to the Commission, within 30 days of the end of each calendar quarter, quarterly capital expenditure variance reports beginning January 30, 2018.

6. As discussed in the body of this Order, New York State Electric and Gas Corporation is directed to file with the Secretary to the Commission quarterly reports of the internal pressures during periods of peak demand of all the district regulator stations throughout the Ithaca distribution system and indicate what the minimum acceptable level is for each regulator station reported.

7. As discussed in the body of this Order, New York State Electric and Gas Corporation is directed to file with the Secretary to the Commission at least 30 days prior to the compressors being put into service all Operation and Maintenance procedures that the Company will use to operate and maintain the proposed compressors and the site-specific emergency plans for the four new compressors.

8. In the Secretary's sole discretion, the deadlines set forth in this Order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least one day prior to the affected deadline.

9. This proceeding is continued.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS
Secretary